# SELECTIONS AND DOCUMENTS IN ECONOMICS

*TRUSTS, POOLS AND CORPORATIONS* (*Revised Edition*)
By William Z. Ripley, Ph.D., Professor of Political Economy, Harvard University

*TRADE UNIONISM AND LABOR PROBLEMS* (*Second Series*)
By John R. Commons, Professor of Political Economy, University of Wisconsin

*SOCIOLOGY AND SOCIAL PROGRESS*
By Thomas N. Carver, Ph.D., Professor of Political Economy, Harvard University

*SELECTED READINGS IN PUBLIC FINANCE* (*Second Edition*)
By Charles J. Bullock, Ph.D., Professor of Economics, Harvard University

*RAILWAY PROBLEMS* (*Revised Edition*)
By William Z. Ripley, Ph.D., Professor of Political Economy, Harvard University

*SELECTED READINGS IN ECONOMICS*
By Charles J. Bullock, Ph.D., Professor of Economics, Harvard University

*ECONOMIC HISTORY OF THE UNITED STATES. 1765–1860*
By Guy Stevens Callender, late Professor of Political Economy, Yale University

*SELECTED READINGS IN RURAL ECONOMICS*
By Thomas N. Carver, Ph.D., Professor of Political Economy, Harvard University

*READINGS IN SOCIAL PROBLEMS*
By Albert Benedict Wolfe, Professor of Economics, University of Texas

*SELECTED READINGS IN INTERNATIONAL TRADE AND TARIFF PROBLEMS*
By Frank W. Taussig, Henry Lee Professor of Economics, Harvard University

# SELECTED READINGS IN INTERNATIONAL TRADE AND TARIFF PROBLEMS

COMPILED BY

FRANK WILLIAM TAUSSIG, PH.D., LITT.D., LL.D.

HENRY LEE PROFESSOR OF ECONOMICS IN HARVARD UNIVERSITY
SOMETIME CHAIRMAN OF THE UNITED STATES
TARIFF COMMISSION

GINN AND COMPANY
BOSTON · NEW YORK · CHICAGO · LONDON
ATLANTA · DALLAS · COLUMBUS · SAN FRANCISCO

621.9



The Athenæum Press
GINN AND COMPANY · PROPRIETORS · BOSTON · U.S.A.

# INTRODUCTION

This volume of selections is intended primarily for use in university and college courses on international trade and tariff problems. It is designed to present for discussion the underlying questions of principle and the ways in which they have been dealt with by writers of different schools. I hope that it will also have some wider influence, by bringing to the attention of economists, as well as of students, aspects of the subject which are often neglected. The debate on protection and free trade has been commonly carried on in most superficial fashion, ignoring the fundamental principles of international trade and ignoring also some of the most perplexing problems of commercial policy. It has seemed to me desirable to stimulate intellectual interest by calling attention to the really difficult and debatable questions; and with this end in view selections have been incorporated on phases of the subject not touched in the newspapers and the party platforms. The free range of the selections may add to their interest not only for students but for the general reader who is weary of the everyday platitudes.

The volume will suffice as the sole textbook, or the sole required reading, in a substantial university course on its subject. It can be used, however, as supplementary reading where a single textbook of the usual type forms the backbone of the instruction. While primarily for use in universities and colleges, where emphasis may be expected to be given to the strictly economic aspects of the subject rather than to the business aspects, the volume should prove useful also in courses given in business schools. These latter too often are devoid of any consideration of the economic principles and would be improved by a widening of their scope.

As the table of contents indicates, the book is divided into three parts.

Part I takes up the theory of international trade. The list of writers begins with Ricardo and runs mainly through the British economists of the nineteenth century. It is not from any special

the general rate of profits in the country, and that the abstraction of capital from other employments, to partake of the new and beneficial foreign commerce, will raise prices generally, and thereby increase profits. It has been said, by high authority, that less capital being necessarily devoted to the growth of corn, to the manufacture of cloth, hats, shoes, etc., while the demand continues the same, the price of these commodities will be so increased, that the farmer, hatter, clothier, and shoemaker will have an increase of profits as well as the foreign merchant.[1]

They who hold this argument agree with me that the profits of different employments have a tendency to conform to one another; to advance and recede together. Our variance consists in this: They contend that the equality of profits will be brought about by the general rise of profits; and I am of opinion that the profits of the favoured trade will speedily subside to the general level.

For, first, I deny that less capital will necessarily be devoted to the growth of corn, to the manufacture of cloth, hats, shoes, etc., unless the demand for these commodities be diminished; and if so, their price will not rise. In the purchase of foreign commodities, either the same, a larger, or a less portion of the produce of the land and labour of England will be employed. If the same portion be so employed, then will the same demand exist for cloth, shoes, corn, and hats as before, and the same portion of capital will be devoted to their production. If, in consequence of the price of foreign commodities being cheaper, a less portion of the annual produce of the land and labour of England is employed in the purchase of foreign commodities, more will remain for the purchase of other things. If there be a greater demand for hats, shoes, corn, etc., than before, which there may be, the consumers of foreign commodities having an additional portion of their revenue disposable, the capital is also disposable with which the greater value of foreign commodities was before purchased; so that with the increased demand for corn, shoes, etc., there exists also the means of procuring an increased supply, and therefore neither prices nor profits can permanently rise. If more of the produce of the land and labour of England be employed in the purchase of foreign commodities, less can be employed in the purchase of other things, and therefore fewer hats, shoes, etc., will be required.

[1] See Adam Smith, Bk. I, chap. ix.

At the same time that capital is liberated from the production of shoes, hats, etc., more must be employed in manufacturing those commodities with which foreign commodities are purchased; and, consequently, in all cases the demand for foreign and home commodities together, as far as regards value, is limited by the revenue and capital of the country. If one increases the other must diminish. If the quantity of wine imported in exchange for the same quantity of English commodities be doubled, the people of England can either consume double the quantity of wine that they did before, or the same quantity of wine and a greater quantity of English commodities. If my revenue had been £1000 with which I purchased annually one pipe of wine for £100, and a certain quantity of English commodities for £900; when wine fell to £50 per pipe, I might lay out the £50 saved, either in the purchase of an additional pipe of wine or in the purchase of more English commodities. If I bought more wine, and every wine-drinker did the same, the foreign trade would not be in the least disturbed; the same quantity of English commodities would be exported in exchange for wine, and we should receive double the quantity, though not double the value of wine. But if I, and others, contented ourselves with the same quantity of wine as before, fewer English commodities would be exported, and the wine-drinkers might either consume the commodities which were before exported, or any others for which they had an inclination. The capital required for their production would be supplied by the capital liberated from the foreign trade.

There are two ways in which capital may be accumulated; it may be saved either in consequence of increased revenue or of diminished consumption. If my profits are raised from £1000 to £1200, while my expenditure continues the same, I accumulate annually £200 more than I did before. If I save £200 out of my expenditure, while my profits continue the same, the same effect will be produced; £200 per annum will be added to my capital. The merchant who imported wine after profits had been raised from 20 per cent. to 40 per cent., instead of purchasing his English goods for £1000, must purchase them for £857 2*s.* 10*d.*, still selling the wine which he imports in return for those goods for £1200; or, if he continued to purchase his English goods for £1000, must raise the price of his wine to £1400; he would thus obtain 40 instead of 20 per cent. profit on his capital; but if,

in consequence of the cheapness of all the commodities on which his revenue was expended, he and all other consumers could save the value of £200 out of every £1000 they before expended, they would more effectually add to the real wealth of the country; in one case, the savings would be made in consequence of an increase of revenue, in the other, in consequence of diminished expenditure.

If, by the introduction of machinery, the generality of the commodities on which revenue was expended fell 20 per cent. in value, I should be enabled to save as effectually as if my revenue had been raised 20 per cent.; but in one case the rate of profits is stationary, in the other it is raised 20 per cent.—If, by the introduction of cheap foreign goods, I can save 20 per cent. from my expenditure, the effect will be precisely the same as if machinery had lowered the expense of their production, but profits would not be raised.

It is not, therefore, in consequence of the extension of the market that the rate of profit is raised, although such extension may be equally efficacious in increasing the mass of commodities, and may thereby enable us to augment the funds destined for the maintenance of labour, and the materials on which labour may be employed. It is quite as important to the happiness of mankind that our enjoyments should be increased by the better distribution of labour, by each country producing those commodities for which by its situation, its climate, and its other natural or artificial advantages it is adapted, and by their exchanging them for the commodities of other countries, as that they should be augmented by a rise in the rate of profits.

It has been my endeavour to show throughout this work that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market, at a reduced price, profits will rise. If, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise; but if the commodities obtained at a cheaper rate, by the extension of foreign commerce, or by the improvement of machinery, be exclusively the commodities consumed by the rich, no alteration will take

place in the rate of profits. The rate of wages would not be affected, although wine, velvets, silks, and other expensive commodities should fall 50 per cent., and consequently profits would continue unaltered.

Foreign trade, then, though highly beneficial to a country, as it increases the amount and variety of the objects on which revenue may be expended, and affords, by the abundance and cheapness of commodities, incentives to saving, and to the accumulation of capital, has no tendency to raise the profits of stock unless the commodities imported be of that description on which the wages of labour are expended.

The remarks which have been made respecting foreign trade apply equally to home trade. The rate of profits is never increased by a better distribution of labour, by the invention of machinery, by the establishment of roads and canals, or by any means of abridging labour either in the manufacture or in the conveyance of goods. These are causes which operate on price, and never fail to be highly beneficial to consumers; since they enable them, with the same labour, or with the value of the produce of the same labour, to obtain in exchange a greater quantity of the commodity to which the improvement is applied; but they have no effect whatever on profit. On the other hand, every diminution in the wages of labour raises profits, but produces no effect on the price of commodities. One is advantageous to all classes, for all classes are consumers; the other is beneficial only to producers; they gain more, but everything remains at its former price. In the first case they get the same as before; but everything on which their gains are expended is diminished in exchangeable value.

The same rule which regulates the relative value of commodities in one country does not regulate the relative value of the commodities exchanged between two or more countries.

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together,

by one common tie of interest and intercourse, the universal society of nations throughout the civilised world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

In one and the same country, profits are, generally speaking, always on the same level; or differ only as the employment of capital may be more or less secure and agreeable. It is not so between different countries. If the profits of capital employed in Yorkshire should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England, from the increase of capital and population, wages should rise and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain, or Russia, where profits might be higher.

If Portugal had no commercial connection with other countries, instead of employing a great part of her capital and industry in the production of wines, with which she purchases for her own use the cloth and hardware of other countries, she would be obliged to devote a part of that capital to the manufacture of those commodities, which she would thus obtain probably inferior in quality as well as quantity.

The quantity of wine which she shall give in exchange for the cloth of England is not determined by the respective quantities of labour devoted to the production of each, as it would be if both commodities were manufactured in England, or both in Portugal.

England may be so circumstanced that to produce the cloth may require the labour of 100 men for one year; and if she attempted to make the wine, it might require the labour of 120 men for the same time. England would therefore find it her interest to import wine, and to purchase it by the exportation of cloth.

To produce the wine in Portugal might require only the labour of 80 men for one year, and to produce the cloth in the same country might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England. Though she could make the cloth with the

labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth.

Thus England would give the produce of the labour of 100 men for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.[1]

It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth should be removed to Portugal for that purpose. In that case, the relative value of these commodities would be regulated by the same principle as if one were the produce of Yorkshire and the other of London: and in every other case, if capital freely flowed towards those countries where it could be most profitably employed, there could be no difference in the rate of profit, and no other difference in the real or labour price of commodities than the additional quantity

[1] It will appear, then, that a country possessing very considerable advantages in machinery and skill, and which may therefore be enabled to manufacture commodities with much less labour than her neighbours, may, in return for such commodities, import a portion of the corn required for its consumption, even if its land were more fertile and corn could be grown with less labour than in the country from which it was imported. Two men can both make shoes and hats, and one is superior to the other in both employments; but in making hats he can only exceed his competitor by one-fifth or 20 per cent., and in making shoes he can excel him by one-third or 33 per cent.;—will it not be for the interest of both that the superior man should employ himself exclusively in making shoes, and the inferior man in making hats?

of labour required to convey them to the various markets where they were to be sold.

Experience, however, shows that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connections, and intrust himself, with all his habits fixed, to a strange government and new laws, check the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.

Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed in such proportions amongst the different countries of the world as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter.

Thus, cloth cannot be imported into Portugal unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot be imported into England unless it will sell for more there than it cost in Portugal. If the trade were purely a trade of barter, it could only continue whilst England could make cloth so cheap as to obtain a greater quantity of wine with a given quantity of labour by manufacturing cloth than by growing vines; and also whilst the industry of Portugal were attended by the reverse effects. Now suppose England to discover a process for making wine, so that it should become her interest rather to grow it than import it; she would naturally divert a portion of her capital from the foreign trade to the home trade; she would cease to manufacture cloth for exportation, and would grow wine for herself. The money price of these commodities would be regulated accordingly; wine would fall here while cloth continued at its former price, and in Portugal no alteration would take place in the price of either commodity. Cloth would continue for some time to be exported from this country, because its price would continue to be higher in Portugal than here; but money instead of wine would be given in exchange for it, till the accumulation of money here, and its diminution abroad, should so operate on the relative value of cloth in the two countries that it would cease

to be profitable to export it. If the improvement in making wine were of a very important description, it might become profitable for the two countries to exchange employments; for England to make all the wine, and Portugal all the cloth consumed by them; but this could be effected only by a new distribution of the precious metals, which should raise the price of cloth in England and lower it in Portugal. The relative price of wine would fall in England in consequence of the real advantage from the improvement of its manufacture; that is to say, its natural price would fall; the relative price of cloth would rise there from the accumulation of money.

Thus, suppose before the improvement in making wine in England the price of wine here were £50 per pipe, and the price of a certain quantity of cloth were £45, whilst in Portugal the price of the same quantity of wine was £45, and that of the same quantity of cloth £50; wine would be exported from Portugal with a profit of £5, and cloth from England with a profit of the same amount.

Suppose that, after the improvement, wine falls to £45 in England, the cloth continuing at the same price. Every transaction in commerce is an independent transaction. Whilst a merchant can buy cloth in England for £45, and sell it with the usual profit in Portugal, he will continue to export it from England. His business is simply to purchase English cloth, and to pay for it by a bill of exchange, which he purchases with Portuguese money. It is to him of no importance what becomes of this money: he has discharged his debt by the remittance of the bill. His transaction is undoubtedly regulated by the terms on which he can obtain this bill, but they are known to him at the time; and the causes which may influence the market price of bills, or the rate of exchange, is no consideration of his.

If the markets be favourable for the exportation of wine from Portugal to England, the exporter of the wine will be a seller of a bill, which will be purchased either by the importer of the cloth, or by the person who sold him his bill; and thus, without the necessity of money passing from either country, the exporters in each country will be paid for their goods. Without having any direct transaction with each other, the money paid in Portugal by the importer of cloth will be paid to the Portuguese exporter of wine; and in England by the negotiation of the same bill the exporter of the cloth will be authorised to receive its value from the importer of wine.

But if the prices of wine were such that no wine could be exported to England, the importer of cloth would equally purchase a bill; but the price of that bill would be higher, from the knowledge which the seller of it would possess that there was no counter bill in the market by which he could ultimately settle the transactions between the two countries; he might know that the gold or silver money which he received in exchange for his bill must be actually exported to his correspondent in England, to enable him to pay the demand which he had authorised to be made upon him, and he might therefore charge in the price of his bill all the expenses to be incurred, together with his fair and usual profit.

If then this premium for a bill on England should be equal to the profit on importing cloth, the importation would of course cease; but if the premium on the bill were only 2 per cent., if to be enabled to pay a debt in England of £100, £102 should be paid in Portugal, whilst cloth which cost £45 would sell for £50, cloth would be imported, bills would be bought, and money would be exported, till the diminution of money in Portugal, and its accumulation in England, had produced such a state of prices as would make it no longer profitable to continue these transactions.

But the diminution of money in one country, and its increase in another, do not operate on the price of one commodity only, but on the prices of all, and therefore the price of wine and cloth will be both raised in England and both lowered in Portugal. The price of cloth, from being £45 in one country and £50 in the other, would probably fall to £49 or £48 in Portugal, and rise to £46 or £47 in England, and not afford a sufficient profit after paying a premium for a bill to induce any merchant to import that commodity.

It is thus that the money of each country is apportioned to it in such quantities only as may be necessary to regulate a profitable trade of barter. England exported cloth in exchange for wine because, by so doing, her industry was rendered more productive to her; she had more cloth and wine than if she had manufactured both for herself; and Portugal imported cloth and exported wine because the industry of Portugal could be more beneficially employed for both countries in producing wine. Let there be more difficulty in England in producing cloth, or in Portugal in producing wine, or let there

be more facility in England in producing wine, or in Portugal in producing cloth, and the trade must immediately cease.

No change whatever takes place in the circumstances of Portugal; but England finds that she can employ her labour more productively in the manufacture of wine, and instantly the trade of barter between the two countries changes. Not only is the exportation of wine from Portugal stopped, but a new distribution of the precious metals takes place, and her importation of cloth is also prevented.

Both countries would probably find it their interest to make their own wine and their own cloth; but this singular result would take place: in England, though wine would be cheaper, cloth would be elevated in price, more would be paid for it by the consumer; while in Portugal the consumers, both of cloth and of wine, would be able to purchase those commodities cheaper. In the country where the improvement was made prices would be enhanced; in that where no change had taken place, but where they had been deprived of a profitable branch of foreign trade, prices would fall.

This, however, is only a seeming advantage to Portugal, for the quantity of cloth and wine together produced in that country would be diminished, while the quantity produced in England would be increased. Money would in some degree have changed its value in the two countries; it would be lowered in England and raised in Portugal. Estimated in money, the whole revenue of Portugal would be diminished; estimated in the same medium the whole revenue of England would be increased.

Thus, then, it appears that the improvement of a manufacture in any country tends to alter the distribution of the precious metals amongst the nations of the world: it tends to increase the quantity of commodities, at the same time that it raises general prices in the country where the improvement takes place.

To simplify the question, I have been supposing the trade between two countries to be confined to two commodities—to wine and cloth; but it is well known that many and various articles enter into the list of exports and imports. By the abstraction of money from one country, and the accumulation of it in another, all commodities are affected in price, and consequently encouragement is given to the exportation of many more commodities besides money, which will

therefore prevent so great an effect from taking place on the value of money in the two countries as might otherwise be expected.

Beside the improvements in arts and machinery, there are various other causes which are constantly operating on the natural course of trade, and which interfere with the equilibrium and the relative value of money. Bounties on exportation or importation, new taxes on commodities, sometimes by their direct, and at other times by their indirect operation, disturb the natural trade of barter, and produce a consequent necessity of importing or exporting money, in order that prices may be accommodated to the natural course of commerce; and this effect is produced not only in the country where the disturbing cause takes place, but, in a greater or less degree, in every country of the commercial world.

This will in some measure account for the different value of money in different countries; it will explain to us why the prices of home commodities, and those of great bulk, though of comparatively small value, are, independently of other causes, higher in those countries where manufactures flourish. Of two countries having precisely the same population, and the same quantity of land of equal fertility in cultivation, with the same knowledge too of agriculture, the prices of raw produce will be highest in that where the greater skill and the better machinery is used in the manufacture of exportable commodities. The rate of profits will probably differ but little; for wages, or the real reward of the labourer, may be the same in both; but those wages, as well as raw produce, will be rated higher in money in that country, into which, from the advantages attending their skill and machinery, an abundance of money is imported in exchange for their goods.

Of these two countries, if one had the advantage in the manufacture of goods of one quality, and the other in the manufacture of goods of another quality, there would be no decided influx of the precious metals into either; but if the advantage very heavily preponderated in favour of either, that effect would be inevitable.

In the former part of this work, we have assumed, for the purpose of argument, that money always continued of the same value; we are now endeavouring to show that, besides the ordinary variations in the value of money, and those which are common to the whole commercial world, there are also partial variations to which money is

subject in particular countries; and to the fact that the value of money is never the same in any two countries, depending as it does on relative taxation, on manufacturing skill, on the advantages of climate, natural productions, and many other causes.

Although, however, money is subject to such perpetual variations, and consequently the prices of the commodities which are common to most countries are also subject to considerable difference, yet no effect will be produced on the rate of profits, either from the influx or efflux of money. Capital will not be increased because the circulating medium is augmented. If the rent paid by the farmer to his landlord, and the wages to his labourers, be 20 per cent. higher in one country than another, and if at the same time the nominal value of the farmer's capital be 20 per cent. more, he will receive precisely the same rate of profits, although he should sell his raw produce 20 per cent. higher.

Profits, it cannot be too often repeated, depend on wages; not on nominal, but real wages; not on the number of pounds that may be annually paid to the labourer, but on the number of days' work necessary to obtain those pounds. Wages may therefore be precisely the same in two countries; they may bear, too, the same proportion to rent, and to the whole produce obtained from the land, although in one of those countries the labourer should receive ten shillings per week and in the other twelve.

In the early states of society, when manufactures have made little progress, and the produce of all countries is nearly similar, consisting of the bulky and most useful commodities, the value of money in different countries will be chiefly regulated by their distance from the mines which supply the precious metals; but as the arts and improvements of society advance, and different nations excel in particular manufactures, although distance will still enter into the calculation, the value of the precious metals will be chiefly regulated by the superiority of those manufactures.

Suppose all nations to produce corn, cattle, and coarse clothing only, and that it was by the exportation of such commodities that gold could be obtained from the countries which produced them, or from those who held them in subjection; gold would naturally be of greater exchangeable value in Poland than in England, on account of the greater expense of sending such a bulky commodity as corn

the more distant voyage, and also the greater expense attending the conveying of gold to Poland.

This difference in the value of gold, or, which is the same thing, this difference in the price of corn in the two countries, would exist, although the facilities of producing corn in England should far exceed those of Poland, from the greater fertility of the land and the superiority in the skill and implements of the labourer.

If, however, Poland should be the first to improve her manufactures, if she should succeed in making a commodity which was generally desirable, including great value in little bulk, or if she should be exclusively blessed with some natural production, generally desirable, and not possessed by other countries, she would obtain an additional quantity of gold in exchange for this commodity, which would operate on the price of her corn, cattle, and coarse clothing. The disadvantage of distance would probably be more than compensated by the advantage of having an exportable commodity of great value, and money would be permanently of lower value in Poland than in England. If, on the contrary, the advantage of skill and machinery were possessed by England, another reason would be added to that which before existed why gold should be less valuable in England than in Poland, and why corn, cattle, and clothing should be at a higher price in the former country.

These I believe to be the only two causes which regulate the comparative value of money in the different countries of the world; for although taxation occasions a disturbance of the equilibrium of money, it does so by depriving the country in which it is imposed of some of the advantages attending skill, industry, and climate.

* * * * * * * * * * *

Any improvement in the facility of working the mines, by which the precious metals may be produced with a less quantity of labour, will sink the value of money generally. It will then exchange for fewer commodities in all countries; but when any particular country excels in manufactures, so as to occasion an influx of money towards it, the value of money will be lower, and the prices of corn and labour will be relatively higher in that country than in any other.

This higher value of money will not be indicated by the exchange; bills may continue to be negotiated at par, although the prices of

corn and labour should be 10, 20, or 30 per cent. higher in one country than another. Under the circumstances supposed, such a difference of prices is the natural order of things, and the exchange can only be at par when a sufficient quantity of money is introduced into the country excelling in manufactures, so as to raise the price of its corn and labour. If foreign countries should prohibit the exportation of money, and could successfully enforce obedience to such a law, they might indeed prevent the rise in the prices of the corn and labour of the manufacturing country; for such rise can only take place after the influx of the precious metals, supposing paper money not to be used; but they could not prevent the exchange from being very unfavourable to them. If England were the manufacturing country, and it were possible to prevent the importation of money, the exchange with France, Holland, and Spain might be 5, 10, or 20 per cent. against those countries.

Whenever the current of money is forcibly stopped, and when money is prevented from settling at its just level, there are no limits to the possible variations of the exchange. The effects are similar to those which follow when a paper money, not exchangeable for specie at the will of the holder, is forced into circulation. Such a currency is necessarily confined to the country where it is issued: it cannot, when too abundant, diffuse itself generally amongst other countries. The level of circulation is destroyed, and the exchange will inevitably be unfavourable to the country where it is excessive in quantity: just so would be the effects of a metallic circulation if by forcible means, by laws which could not be evaded, money should be detained in a country, when the stream of trade gave it an impetus towards other countries.

When each country has precisely the quantity of money which it ought to have, money will not indeed be of the same value in each, for with respect to many commodities it may differ 5, 10, or even 20 per cent., but the exchange will be at par. One hundred pounds in England, or the silver which is in £100, will purchase a bill of £100, or an equal quantity of silver in France, Spain, or Holland.

In speaking of the exchange and the comparative value of money in different countries, we must not in the least refer to the value of money estimated in commodities in either country. The exchange is never ascertained by estimating the comparative value of money in

corn, cloth, or any commodity whatever, but by estimating the value of the currency of one country in the currency of another.

It may also be ascertained by comparing it with some standard common to both countries. If a bill on England for £100 will purchase the same quantity of goods in France or Spain that a bill on Hamburgh for the same sum will do, the exchange between Hamburgh and England is at par; but if a bill on England for £130 will purchase no more than a bill on Hamburgh for £100, the exchange is 30 per cent. against England.

* * * * * * * * * * *

Those who maintain that our currency was depreciated during the last ten years, when the exchange varied from 20 to 30 per cent. against this country, have never contended, as they have been accused of doing, that money could not be more valuable in one country than another as compared with various commodities; but they did contend that £130 could not be detained in England unless it was depreciated, when it was of no more value, estimated in the money of Hamburgh or of Holland, than the bullion in £100.

By sending 130 good English pounds sterling to Hamburgh, even at an expense of £5, I should be possessed there of £125; what then could make me consent to give £130 for a bill which would give me £100 in Hamburgh, but that my pounds were not good pounds sterling?—they were deteriorated, were degraded in intrinsic value below the pounds sterling of Hamburgh, and if actually sent there, at an expense of £5, would sell only for £100. With metallic pounds sterling, it is not denied that my £130 would procure me £125 in Hamburgh, but with paper pounds sterling I can only obtain £100; and yet it was maintained that £130 in paper was of equal value with £130 in silver or gold.

Some indeed more reasonably maintained that £130 in paper was not of equal value with £130 in metallic money; but they said that it was the metallic money which had changed its value and not the paper money. They wished to confine the meaning of the word depreciation to an actual fall of value, and not to a comparative difference between the value of money and the standard by which by law it is regulated. One hundred pounds of English money was formerly of equal value with and could purchase £100 of Hamburgh money; in any other country a bill of £100 on England, or on

Hamburgh, could purchase precisely the same quantity of commodities. To obtain the same things, I was lately obliged to give £130 English money, when Hamburgh could obtain them for £100 Hamburgh money. If English money was of the same value then as before, Hamburgh money must have risen in value. But where is the proof of this? How is it to be ascertained whether English money has fallen or Hamburgh money has risen? there is no standard by which this can be determined. It is a plea which admits of no proof, and can neither be positively affirmed nor positively contradicted. The nations of the world must have been early convinced that there was no standard of value in nature to which they might unerringly refer, and therefore chose a medium which on the whole appeared to them less variable than any other commodity.

To this standard we must conform till the law is changed, and till some other commodity is discovered by the use of which we shall obtain a more perfect standard than that which we have established. While gold is exclusively the standard in this country money will be depreciated when a pound sterling is not of equal value with 5 dwts. and 3 grs. of standard gold, and that whether gold rises or falls in general value.

## II

## MILL: OF INTERNATIONAL TRADE[1]

THE causes which occasion a commodity to be brought from a distance, instead of being produced, as convenience would seem to dictate, as near as possible to the market where it is to be sold for consumption, are usually conceived in a rather superficial manner. Some things it is physically impossible to produce, except in particular circumstances of heat, soil, water, or atmosphere. But there are many things which, though they could be produced at home without difficulty, and in any quantity, are yet imported from a distance. The explanation which would be popularly given of this would be, that it is cheaper to import than to produce them: and this is the true reason. But this reason itself requires that a reason be given for it. Of two things produced in the same place, if one is cheaper than the other, the reason is that it can be produced with less labour and capital, or, in a word, at less cost. Is this also the reason as between things produced in different places? Are things never imported but from places where they can be produced with less labour (or less of the other element of cost, time) than in the place to which they are brought? Does the law, that permanent value is proportioned to cost of production, hold good between commodities produced in distant places, as it does between those produced in adjacent places?

We shall find that it does not. A thing may sometimes be sold cheapest, by being produced in some other place than that at which it can be produced with the smallest amount of labour and abstinence. England might import corn from Poland and pay for it in cloth, even though England had a decided advantage over Poland in the production of both the one and the other. England might send cottons to Portugal in exchange for wine, although Portugal might

[1] John Stuart Mill (1806–1873), Principles of Political Economy (1848), Bk. III, chap. xvii.

be able to produce cottons with a less amount of labour and capital than England could.

This could not happen between adjacent places. If the north bank of the Thames possessed an advantage over the south bank in the production of shoes, no shoes would be produced on the south side; the shoemakers would remove themselves and their capitals to the north bank, or would have established themselves there originally; for, being competitors in the same market with those on the north side, they could not compensate themselves for their disadvantage at the expense of the consumer; the amount of it would fall entirely on their profits; and they would not long content themselves with a smaller profit, when, by simply crossing a river, they could increase it. But between distant places, and especially between different countries, profits may continue different; because persons do not usually remove themselves or their capitals to a distant place, without a very strong motive. If capital removed to remote parts of the world as readily, and for as small an inducement, as it moves to another quarter of the same town; if people would transport their manufactories to America or China whenever they could save a small percentage in their expenses by it; profits would be alike (or equivalent) all over the world, and all things would be produced in the places where the same labour and capital would produce them in greatest quantity and of best quality. A tendency may, even now, be observed towards such a state of things; capital is becoming more and more cosmopolitan; there is so much greater similarity of manners and institutions than formerly, and so much less alienation of feeling, among the more civilized countries, that both population and capital now move from one of those countries to another on much less temptation than heretofore. But there are still extraordinary differences, both of wages and of profits, between different parts of the world. It needs but a small motive to transplant capital, or even persons, from Warwickshire to Yorkshire; but a much greater to make them remove to India, the colonies, or Ireland. To France, Germany, or Switzerland, capital moves perhaps almost as readily as to the colonies; the differences of language and government being scarcely so great a hindrance as climate and distance. To countries still barbarous, or, like Russia or Turkey, only beginning to be civilized, capital will

not migrate, unless under the inducement of a very great extra profit.

Between all distant places therefore in some degree, but especially between different countries (whether under the same supreme government or not,) there may exist great inequalities in the return to labour and capital, without causing them to move from one place to the other in such quantity as to level those inequalities. The capital belonging to a country will, to a great extent, remain in the country, even if there be no mode of employing it in which it would not be more productive elsewhere. Yet even a country thus circumstanced might, and probably would, carry on trade with other countries. It would export articles of some sort, even to places which could make them with less labour than itself; because those countries, supposing them to have an advantage over it in all productions, would have a greater advantage in some things than in others, and would find it their interest to import the articles in which their advantage was smallest, that they might employ more of their labour and capital on those in which it was greatest.

§ 2. As I have said elsewhere[1] after Ricardo (the thinker who has done most towards clearing up this subject) "it is not a difference in the *absolute* cost of production, which determines the interchange, but a difference in the *comparative* cost. It may be to our advantage to procure iron from Sweden in exchange for cottons, even although the mines of England as well as her manufactories should be more productive than those of Sweden; for if we have an advantage of one-half in cottons, and only an advantage of a quarter in iron, and could sell our cottons to Sweden at the price which Sweden must pay for them if she produced them herself, we should obtain our iron with an advantage of one-half, as well as our cottons. We may often, by trading with foreigners, obtain their commodities at a smaller expense of labour and capital than they cost to the foreigners themselves. The bargain is still advantageous to the foreigner, because the commodity which he receives in exchange, though it has cost us less, would have cost him more."

To illustrate the cases in which interchange of commodities will not, and those in which it will, take place between two countries,

[1] Essays on some Unsettled Questions of Political Economy, Essay I.

Mr. Mill, in his Elements of Political Economy, makes the supposition, that Poland has an advantage over England in the production both of cloth and of corn. He first supposes the advantage to be of equal amount in both commodities; the cloth and the corn, each of which required 100 days' labour in Poland, requiring each 150 days' labour in England. "It would follow, that the cloth of 150 days' labour in England, if sent to Poland, would be equal to the cloth of 100 days' labour in Poland; if exchanged for corn, therefore, it would exchange for the corn of only 100 days' labour. But the corn of 100 days' labour in Poland, was supposed to be the same quantity with that of 150 days' labour in England. With 150 days' labour in cloth, therefore, England would only get as much corn in Poland as she could raise with 150 days' labour at home; and she would, in importing it, have the cost of carriage besides. In these circumstances no exchange would take place." In this case the comparative costs of the two articles in England and in Poland were supposed to be the same, though the absolute costs were different; on which supposition we see that there would be no labour saved to either country by confining its industry to one of the two productions, and importing the other.

It is otherwise when the comparative, and not merely the absolute costs of the two articles are different in the two countries. "If," continues the same author, "while the cloth produced with 100 days' labour in Poland was produced with 150 days' labour in England, the corn which was produced in Poland with 100 days' labour could not be produced in England with less than 200 days' labour; an adequate motive to exchange would immediately arise. With a quantity of cloth which England produced with 150 days' labour, she would be able to purchase as much corn in Poland as was there produced with 100 days' labour; but the quantity which was there produced with 100 days' labour, would be as great as the quantity produced in England with 200 days' labour." By importing corn, therefore, from Poland, and paying for it with cloth, England would obtain for 150 days' labour what would otherwise cost her 200; being a saving of 50 days' labour on each repetition of the transaction: and not merely a saving to England, but a saving absolutely; for it is not obtained at the expense of Poland, who, with corn that costs her 100 days' labour, has purchased cloth which, if produced at

home, would have cost her the same. Poland, therefore, on this supposition, loses nothing; but also she derives no advantage from the trade, the imported cloth costing her as much as if it were made at home. To enable Poland to gain anything by the interchange, something must be abated from the gain of England: the corn produced in Poland by 100 days labour, must be able to purchase from England more cloth than Poland could produce by that amount of labour; more therefore than England could produce by 150 days labour, England thus obtaining the corn which would have cost her 200 days, at a cost exceeding 150, though short of 200. England therefore no longer gains the whole of the labour which is saved to the two jointly by trading with one another.

§ 3. From this exposition we perceive in what consists the benefit of international exchange, or, in other words, foreign commerce. Setting aside its enabling countries to obtain commodities which they could not themselves produce at all; its advantage consists in a more efficient employment of the productive forces of the world. If two countries which traded together attempted, as far as was physically possible, to produce for themselves what they now import from one another, the labour and capital of the two countries would not be so productive, the two together would not obtain from their industry so great a quantity of commodities, as when each employs itself in producing, both for itself and for the other, the things in which its labour is relatively most efficient. The addition thus made to the produce of the two combined, constitutes the advantage of the trade. It is possible that one of the two countries may be altogether inferior to the other in productive capacities, and that its labour and capital could be employed to greatest advantage by being removed bodily to the other. The labour and capital which have been sunk in rendering Holland habitable, would have produced a much greater return if transported to America or Ireland. The produce of the whole world would be greater, or the labour less, than it is, if everything were produced where there is the greatest absolute facility for its production. But nations do not, at least in modern times, emigrate *en masse*; and while the labour and capital of a country remain in the country, they are most beneficially employed in producing for foreign markets as well as for its own, the things in

which it lies under the least disadvantage, if there be none in which it possesses an advantage.

§ 4. Before proceeding further, let us contrast this view of the benefits of international commerce with other theories which have prevailed, and which to a certain extent still prevail, on the same subject.

According to the doctrine now stated, the only direct advantage of foreign commerce consists in the imports. A country obtains things which it either could not have produced at all, or which it must have produced at a greater expense of capital and labour than the cost of the things which it exports to pay for them. It thus obtains a more ample supply of the commodities it wants, for the same labour and capital; or the same supply, for less labour and capital, leaving the surplus disposable to produce other things. The vulgar theory disregards this benefit and deems the advantage of commerce to reside in the exports: as if not what a country obtains, but what it parts with, by its foreign trade, was supposed to constitute the gain to it. An extended market for its produce—an abundant consumption for its goods—a vent for its surplus—are the phrases by which it has been customary to designate the uses and recommendations of commerce with foreign countries. This notion is intelligible, when we consider that the authors and leaders of opinion on mercantile questions have always hitherto been the selling class. It is in truth a surviving relic of the Mercantile Theory, according to which, money being the only wealth, selling, or in other words, exchanging goods for money was (to countries without mines of their own) the only way of growing rich—and importation of goods, that is to say, parting with money, was so much subtracted from the benefit.

The notion that money alone is wealth, has been long defunct, but it has left many of its progeny behind it; and even its destroyer Adam Smith, retained some opinions which it is impossible to trace to any other origin. Adam Smith's theory of the benefit of foreign trade, was that it afforded an outlet for the surplus produce of a country, and enabled a portion of the capital of the country to replace itself with a profit. These expressions suggest ideas inconsistent with a clear conception of the phenomena. The expression, surplus produce, seems to imply that a country is under some kind of necessity

of producing the corn or cloth which it exports; so that the portion which it does not itself consume, if not wanted and consumed elsewhere, would either be produced in sheer waste, or if it were not produced, the corresponding portion of capital would remain idle, and the mass of productions in the country would be diminished by so much. Either of these suppositions would be entirely erroneous. The country produces an exportable article in excess of its own wants, from no inherent necessity, but as the cheapest mode of supplying itself with other things. If prevented from exporting this surplus, it would cease to produce it, and would no longer import anything, being unable to give an equivalent; but the labour and capital which had been employed in producing with a view to exportation, would find employment in producing those desirable objects which were previously brought from abroad: or, if some of them could not be produced, in producing substitutes for them. These articles would of course be produced at a greater cost than that of the things with which they had previously been purchased from foreign countries. But the value and price of the articles would rise in proportion; and the capital would just as much be replaced, with the ordinary profit, from the returns, as it was when employed in producing for the foreign market. The only losers (after the temporary inconvenience of the change) would be the consumers of the heretofore imported articles; who would be obliged either to do without them, consuming in lieu of them something which they did not like as well, or to pay a higher price for them than before.

There is much misconception in the common notion of what commerce does for a country. When commerce is spoken of as a source of national wealth, the imagination fixes itself upon the large fortunes acquired by merchants, rather than upon the saving of price to consumers. But the gains of merchants, when they enjoy no exclusive privilege, are no greater than the profits obtained by the employment of capital in the country itself. If it be said that the capital now employed in foreign trade could not find employment in supplying the home market, I might reply, that this is the fallacy of general over-production, discussed in a former chapter; but the thing is in this particular case too evident, to require an appeal to any general theory.

We not only see that the capital of the merchant would find employment, but we see what employment. There would be employment created, equal to that which would be taken away. Exportation ceasing, importation to an equal value would cease also, and all that part of the income of the country which had been expended in imported commodities, would be ready to expend itself on the same things produced at home, or on others instead of them. Commerce is virtually a mode of cheapening production; and in all such cases the consumer is the person ultimately benefited; the dealer, in the end, is sure to get his profit, whether the buyer obtains much or little for his money. This is said without prejudice to the effect (already touched upon, and to be hereafter fully discussed) which the cheapening of commodities may have in raising profits; in the case when the commodity cheapened, being one of those consumed by labourers, enters into the cost of labour, by which the rate of profits is determined.

§ 5. Such, then, is the direct economical advantage of foreign trade. But there are, besides, indirect effects, which must be counted as benefits of a high order. One is, the tendency of every extension of the market to improve the processes of production. A country which produces for a larger market than its own, can introduce a more extended division of labour, can make greater use of machinery, and is more likely to make inventions and improvements in the processes of production. Whatever causes a greater quantity of anything to be produced in the same place, tends to the general increase of the productive powers of the world. There is another consideration; principally applicable to an early stage of industrial advancement. A people may be in a quiescent, indolent, uncultivated state, with all their tastes either fully satisfied or entirely undeveloped, and they may fail to put forth the whole of their productive energies for want of any sufficient object of desire. The opening of a foreign trade, by making them acquainted with new objects, or tempting them by the easier acquisition of things which they had not previously thought attainable, sometimes works a sort of industrial revolution in a country whose resources were previously undeveloped for want of energy and ambition in the people; inducing those who

were satisfied with scanty comforts and little work, to work harder for the gratification of their new tastes, and even to save, and accumulate capital, for the still more complete satisfaction of those tastes at a future time.

But the economical advantages of commerce are surpassed in importance by those of its effects which are intellectual and moral. It is hardly possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar. Commerce is now, what war once was, the principal source of this contact. Commercial adventurers from more advanced countries have generally been the first civilizers of barbarians. And commerce is the purpose of the far greater part of the communication which takes place between civilized nations. Such communication has always been, and is peculiarly in the present age, one of the primary sources of progress. To human beings, who, as hitherto educated, can scarcely cultivate even a good quality without running it into a fault, it is indispensable to be perpetually comparing their own notions and customs with the experience and example of persons in different circumstances from themselves: and there is no nation which does not need to borrow from others, not merely particular arts or practices, but essential points of character in which its own type is inferior. Finally, commerce first taught nations to see with good will the wealth and prosperity of one another. Before, the patriot, unless sufficiently advanced in culture to feel the world his country, wished all countries weak, poor, and ill-governed, but his own: he now sees in their wealth and progress a direct source of wealth and progress to his own country. It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it. And it may be said without exaggeration that the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race.

## MILL: OF INTERNATIONAL VALUES[1]

§ 1. The values of commodities produced at the same place, or in places sufficiently adjacent for capital to move freely between them—let us say, for simplicity, of commodities produced in the same country—depend (temporary fluctuations apart) upon their cost of production. But the value of a commodity brought from a distant place, especially from a foreign country, does not depend on its cost of production in the place from whence it comes. On what, then, does it depend? The value of a thing in any place, depends on the cost of its acquisition in that place; which in the case of an imported article, means the cost of production of the thing which is exported to pay for it.

Since all trade is in reality barter, money being a mere instrument for exchanging things against one another, we will, for simplicity, begin by supposing the international trade to be in form, what it always is in reality, an actual trucking of one commodity against another. As far as we have hitherto proceeded, we have found all the laws of interchange to be essentially the same, whether money is used or not; money never governing, but always obeying, those general laws.

If, then, England imports wine from Spain, giving for every pipe of wine a bale of cloth, the exchange value of a pipe of wine in England will not depend upon what the production of the wine may have cost in Spain, but upon what the production of the cloth has cost in England. Though the wine may have cost in Spain the equivalent of only ten days labour, yet, if the cloth costs in England twenty days labour, the wine, when brought to England, will exchange for the produce of twenty days English labour, *plus* the cost of carriage; including the usual profit on the importer's capital during the time it is locked up, and withheld from other employment.

The value, then, in any country, of a foreign commodity, depends on the quantity of home produce which must be given to the foreign country in exchange for it. In other words, the values of foreign commodities depend on the terms of international exchange. What,

[1] Mill, Principles, Bk. III, chap. xviii.

then, do these depend upon? What is it, which, in the case supposed, causes a pipe of wine from Spain to be exchanged with England for exactly that quantity of cloth? We have seen that it is not their cost of production. If the cloth and the wine were both made in Spain, they would exchange at their cost of production in Spain; if they were both made in England, they would exchange at their cost of production in England: but all the cloth being made in England, and all the wine in Spain, they are in circumstances to which we have already determined that the law of cost of production is not applicable. We must accordingly, as we have done before in a similar embarrassment, fall back upon an antecedent law, that of supply and demand: and in this we shall again find the solution of our difficulty.

I have discussed this question in a separate Essay, already once referred to; and a quotation of part of the exposition then given, will be the best introduction to my present view of the subject. I must give notice that we are now in the region of the most complicated questions which political economy affords; that the subject is one which cannot possibly be made elementary; and that a more continuous effort of attention than has yet been required, will be necessary to follow the series of deductions. The thread, however, which we are about to take in hand, is in itself very simple and manageable; the only difficulty is in following it through the windings and entanglements of complex international transactions.

§ 2. "When the trade is established between the two countries, the two commodities will exchange for each other at the same rate of interchange in both countries—bating the cost of carriage, of which, for the present, it will be more convenient to omit the consideration. Supposing, therefore, for the sake of argument, that the carriage of the commodities from one country to the other could be effected without labour and without cost, no sooner would the trade be opened than the value of the two commodities, estimated in each other, would come to a level in both countries.

"Suppose that 10 yards of broadcloth cost in England as much labour as 15 yards of linen, and in Germany as much as 20." In common with most of my predecessors, I find it advisable, in these intricate investigations, to give distinctness and fixity to the conception

by numerical examples. These examples must sometimes, as in the present case, be purely supposititious. I should have preferred real ones; but all that is essential is that the numbers should be such as admit of being easily followed through the subsequent combinations into which they enter.

This supposition then being made, it would be the interest of England to import linen from Germany, and of Germany to import cloth from England. "When each country produced both commodities for itself, 10 yards of cloth exchanged for 15 yards of linen in England, and for 20 in Germany. They will now exchange for the same number of yards of linen in both. For what number? If for 15 yards, England will be just as she was, and Germany will gain all. If for 20 yards, Germany will be as before, and England will derive the whole of the benefit. If for any number intermediate between 15 and 20, the advantage will be shared between the two countries. If, for example, 10 yards of cloth exchange for 18 of linen, England will gain an advantage of 3 yards on every 15, Germany will save 2 out of every 20. The problem is, what are the causes which determine the proportion in which the cloth of England and the linen of Germany will exchange for each other.

"As exchange value, in this case as in every other, is proverbially fluctuating, it does not matter what we suppose it to be when we begin: we shall soon see whether there be any fixed point about which it oscillates, which it has a tendency always to approach to, and to remain at. Let us suppose, then, that by the effect of what Adam Smith calls the higgling of the market, 10 yards of cloth, in both countries, exchange for 17 yards of linen.

"The demand for a commodity, that is, the quantity of it which can find a purchaser, varies, as we have before remarked, according to the price. In Germany the price of 10 yards of cloth is now 17 yards of linen, or whatever quantity of money is equivalent in Germany to 17 yards of linen. Now, that being the price, there is some particular number of yards of cloth, which will be in demand, or will find purchasers, at that price. There is some given quantity of cloth, more than which could not be disposed of at that price; less than which, at that price, would not fully satisfy the demand. Let us suppose this quantity to be 1000 times 10 yards.

"Let us now turn our attention to England. There the price of 17 yards of linen is 10 yards of cloth, or whatever quantity of money is equivalent in England to 10 yards of cloth. There is some particular number of yards of linen which, at that price, will exactly satisfy the demand, and no more. Let us suppose that this number is 1000 times 17 yards.

"As 17 yards of linen are to 10 yards of cloth, so are 1000 times 17 yards to 1000 times 10 yards. At the existing exchange value, the linen which England requires will exactly pay for the quantity of cloth which, on the same terms of interchange, Germany requires. The demand on each side is precisely sufficient to carry off the supply on the other. The conditions required by the principle of demand and supply are fulfilled, and the two commodities will continue to be interchanged, as we supposed them to be, in the ratio of 17 yards of linen for 10 yards of cloth.

"But our suppositions might have been different. Suppose that, at the assumed rate of interchange, England had been disposed to consume no greater quantity of linen than 800 times 17 yards: it is evident that, at the rate supposed, this would not have sufficed to pay for the 1000 times 10 yards of cloth which we have supposed Germany to require at the assumed value. Germany would be able to procure no more than 800 times 10 yards at that price. To procure the remaining 200, which she would have no means of doing but by bidding higher for them, she would offer more than 17 yards of linen in exchange for 10 yards of cloth: let us suppose her to offer 18. At this price, perhaps, England would be inclined to purchase a greater quantity of linen. She would consume, possibly, at that price, 900 times 18 yards. On the other hand, cloth having risen in price, the demand of Germany for it would probably have diminished. If, instead of 1000 times 10 yards, she is now contented with 900 times 10 yards, these will exactly pay for the 900 times 18 yards of linen which England is willing to take at the altered price: the demand on each side will again exactly suffice to take off the corresponding supply; and 10 yards for 18 will be the rate at which, in both countries, cloth will exchange for linen.

"The converse of all this would have happened, if, instead of 800 times 17 yards, we had supposed that England, at the rate of 10 for 17, would have taken 1200 times 17 yards of linen. In this

case, it is England whose demand is not fully supplied; it is England who by bidding for more linen, will alter the rate of interchange to her own disadvantage; and 10 yards of cloth will fall, in both countries, below the value of 17 yards of linen. By this fall of cloth, or what is the same thing, this rise of linen, the demand of Germany for cloth will increase, and the demand of England for linen will diminish, till the rate of interchange has so adjusted itself that the cloth and the linen will exactly pay for one another; and when once this point is attained, values will remain without further alteration.

"It may be considered, therefore, as established, that when two countries trade together in two commodities, the exchange value of these commodities relatively to each other will adjust itself to the inclinations and circumstances of the consumers on both sides, in such manner that the quantities required by each country, of the articles which it imports from its neighbour, shall be exactly sufficient to pay for one another. As the inclinations and circumstances of consumers cannot be reduced to any rule, so neither can the proportions in which the two commodities will be interchanged. We know that the limits within which the variation is confined, are the ratio between their costs of production in the one country, and the ratio between their costs of production in the other. Ten yards of cloth cannot exchange for more than 20 yards of linen, nor for less than 15. But they may exchange for any intermediate number. The ratios, therefore, in which the advantage of the trade may be divided between the two nations, are various. The circumstances on which the proportionate share of each country more remotely depends, admit only of a very general indication.

"It is even possible to conceive an extreme case, in which the whole of the advantage resulting from the interchange would be reaped by one party, the other country gaining nothing at all. There is no absurdity in the hypothesis that, of some given commodity, a certain quantity is all that is wanted at any price; and that, when that quantity is obtained, no fall in the exchange value would induce other consumers to come forward, or those who are already supplied, to take more. Let us suppose that this is the case in Germany with cloth. Before her trade with England commenced, when 10 yards of cloth cost her as much labour as 20 yards of linen, she nevertheless

consumed as much cloth as she wanted under any circumstances, and, if she could obtain it at the rate of 10 yards of cloth for 15 of linen, she would not consume more. Let this fixed quantity be 1000 times 10 yards. At the rate, however, of 10 for 20, England would want more linen than would be equivalent to this quantity of cloth. She would, consequently, offer a higher value for linen; or, what is the same thing, she would offer her cloth at a cheaper rate. But, as by no lowering of the value could she prevail on Germany to take a greater quantity of cloth, there would be no limit to the rise of linen or fall of cloth, until the demand of England for linen was reduced by the rise of its value, to the quantity which 1000 times 10 yards of cloth would purchase. It might be, that to produce this diminution of the demand a less fall would not suffice than that which would make 10 yards of cloth exchange for 15 of linen. Germany would then gain the whole of the advantage, and England would be exactly as she was before the trade commenced. It would be for the interest, however, of Germany herself to keep her linen a little below the value at which it could be produced in England, in order to keep herself from being supplanted by the home producer. England, therefore, would always benefit in some degree by the existence of the trade, though it might be a very trifling one."

In this statement, I conceive, is contained the first elementary principle of International Values. I have, as is indispensable in such abstract and hypothetical cases, supposed the circumstances to be much less complex than they really are: in the first place, by suppressing the cost of carriage: next, by supposing that there are only two countries trading together; and lastly, that they trade only in two commodities. To render the exposition of the principle complete, it is necessary to restore the various circumstances thus temporarily left out to simplify the argument. Those who are accustomed to any kind of scientific investigation will probably see, without formal proof, that the introduction of these circumstances cannot alter the theory of the subject. Trade among any number of countries, and in any number of commodities, must take place on the same essential principles as trade between two countries and in two commodities. Introducing a greater number of agents precisely similar, cannot change the law of their action, no more than putting additional weights into the two scales of a balance alters the

law of gravitation. It alters nothing but the numerical results. For more complete satisfaction, however, we will enter into the complex cases with the same particularity with which we have stated the simpler one.

§ 3. First, let us introduce the element of cost of carriage. The chief difference will then be, that the cloth and the linen will no longer exchange for each other at precisely the same rate in both countries. Linen, having to be carried to England, will be dearer there by its cost of carriage; and cloth will be dearer in Germany by the cost of carrying it from England. Linen, estimated in cloth, will be dearer in England than in Germany, by the cost of carriage of both articles: and so will cloth in Germany, estimated in linen. Suppose that the cost of carriage of each is equivalent to one yard of linen; and suppose that, if they could have been carried without cost, the terms of interchange would have been 10 yards of cloth for 17 of linen. It may seem at first that each country will pay its own cost of carriage; that is, the carriage of the article it imports; that in Germany 10 yards of cloth will exchange for 18 of linen, namely, the original 17, and 1 to cover the cost of carriage of the cloth; while in England, 10 yards of cloth will only purchase 16 of linen, 1 yard being deducted for the cost of carriage of the linen. This, however, cannot be affirmed with certainty; it will only be true, if the linen which the English consumers would take at the price of 10 for 16, exactly pays for the cloth which the German consumers would take at 10 for 18. The values, whatever they are, must establish this equilibrium. No absolute rule, therefore, can be laid down for the division of the cost, no more than for the division of the advantage: and it does not follow that in whatever ratio the one is divided, the other will be divided in the same. It is impossible to say, if the cost of carriage could be annihilated, whether the producing or the importing country would be most benefited. This would depend on the play of international demand.

Cost of carriage has one effect more. But for it, every commodity would (if trade be supposed free) be either regularly imported or regularly exported. A country would make nothing for itself which it did not also make for other countries. But in consequence of cost of carriage there are many things, especially bulky articles, which

every, or almost every country produces within itself. After exporting the things in which it can employ itself most advantageously, and importing those in which it is under the greatest disadvantage, there are many lying between, of which the relative cost of production in that and in other countries differs so little, that the cost of carriage would absorb more than the whole saving in cost of production which would be obtained by importing one and exporting another. This is the case with numerous commodities of common consumption; including the coarser qualities of many articles of food and manufacture, of which the finer kinds are the subject of extensive international traffic.

§ 4. Let us now introduce a greater number of commodities than the two we have hitherto supposed. Let cloth and linen, however, be still the articles of which the comparative cost of production in England and in Germany differ the most; so that if they were confined to two commodities, these would be the two which it would be most their interest to exchange. We will now again omit cost of carriage, which, having been shown not to affect the essentials of the question, does but embarrass unnecessarily the statement of it. Let us suppose, then, that the demand of England for linen is either so much greater than that of Germany for cloth, or so much more extensible by cheapness, that if England had no commodity but cloth which Germany would take, the demand of England would force up the terms of interchange to 10 yards of cloth for only 16 of linen, so that England would gain only the difference between 15 and 16, Germany the difference between 16 and 20. But let us now suppose that England has also another commodity, say iron, which is in demand in Germany, and that the quantity of iron which is of equal value in England with 10 yards of cloth, (let us call this quantity a hundred weight) will, if produced in Germany, cost as much labour as 18 yards of linen, so that if offered by England for 17, it will undersell the German producer. In these circumstances, linen will not be forced up to the rate of 16 yards for 10 of cloth, but will stop, suppose at 17; for although, at that rate of interchange, Germany will not take enough cloth to pay for all the linen required by England, she will take iron for the remainder, and it is the same thing to England whether she gives a hundred weight of iron or

10 yards of cloth, both being made at the same cost. If we now superadd coals or cottons on the side of England, and wine, or corn, or timber, on the side of Germany, it will make no difference in the principle. The exports of each country must exactly pay for the imports; meaning now the aggregate exports and imports, not those of particular commodities taken singly. The produce of fifty days English labour, whether in cloth, coals, iron, or any other exports, will exchange for the produce of forty, or fifty, or sixty days German labour, in linen, wine, corn, or timber, according to the international demand. There is some proportion at which the demand of the two countries for each other's products will exactly correspond; so that the things supplied by England to Germany will be completely paid for, and no more, by those supplied by Germany to England. This accordingly will be the ratio in which the produce of English and the produce of German labour will exchange for one another.

If, therefore, it be asked what country draws to itself the greatest share of the advantage of any trade it carries on, the answer is, the country for whose productions there is in other countries the greatest demand; and a demand the most susceptible of increase from additional cheapness. In so far as the productions of any country possess this property, the country obtains all foreign commodities at less cost. It gets its imports cheaper, the greater the intensity of the demand in foreign countries for its exports. It also gets its imports cheaper, the less the extent and intensity of its own demand for them. The market is cheapest to those whose demand is small. A country which desires few foreign productions, and only a limited quantity of them, while its own commodities are in great request in foreign countries, will obtain its limited imports at extremely small cost, that is, in exchange for the produce of a very small quantity of its labour and capital.

Lastly, having introduced more than the original two commodities into the hypothesis, let us also introduce more than the original two countries. After the demand of England for the linen of Germany has raised the rate of interchange to 10 yards of cloth for 16 of linen, suppose a trade opened between England and some other country which also exports linen. And let us suppose that if England had no trade but with this third country, the play of international demand would enable her to obtain from it, for 10 yards of

cloth or its equivalent, 17 yards of linen. She evidently would not go on buying linen from Germany at the former rate: Germany would be undersold, and must consent to give 17 yards, like the other country. In this case, the circumstances of production and of demand in the third country are supposed to be in themselves more advantageous to England than the circumstances of Germany; but this supposition is not necessary: we might suppose that if the trade with Germany did not exist, England would be obliged to give to the other country the same advantageous terms which she gives to Germany; 10 yards of cloth for 16, or even less than 16, of linen. Even so, the opening of the third country makes a great difference in favour of England. There is now a double market for English exports, while the demand of England for linen is only what it was before. This necessarily obtains for England more advantageous terms of interchange. The two countries, requiring much more of her produce than was required by either alone, must, in order to obtain it, force an increased demand for their exports, by offering them at a lower value.

It deserves notice, that this effect in favour of England from the opening of another market for her exports, will equally be produced even though the country from which the demand comes should have nothing to sell which England is willing to take. Suppose that the third country, though requiring cloth or iron from England, produces no linen, nor any other article which is in demand there. She however produces exportable articles, or she would have no means of paying for imports: her exports, though not suitable to the English consumer, can find a market somewhere. As we are only supposing three countries, we must assume her to find this market in Germany, and to pay for what she imports from England by orders on her German customers. Germany, therefore, besides having to pay for her own imports, now owes a debt to England on account of the third country, and the means for both purposes must be derived from her exportable produce. She must therefore tender that produce to England on terms sufficiently favourable to force a demand equivalent to this double debt. Everything will take place precisely as if the third country had bought German produce with her own goods, and offered that produce to England in exchange for hers. There is an increased demand for English goods, for which German goods

have to furnish the payment; and this can only be done by forcing an increased demand for them in England, that is, by lowering their value. Thus an increase of demand for a country's exports in any foreign country, enables her to obtain more cheaply even those imports which she procures from other quarters. And conversely, an increase of her own demand for any foreign commodity compels her, *cæteris paribus*, to pay dearer for all foreign commodities.

The law which we have now illustrated, may be appropriately named, the Equation of International Demand. It may be concisely stated as follows. The produce of a country exchanges for the produce of other countries, at such values as are required in order that the whole of her exports may exactly pay for the whole of her imports. This law of International Values is but an extension of the more general law of Value, which we called the Equation of Supply and Demand. We have seen that the value of a commodity always so adjusts itself as to bring the demand to the exact level of the supply. But all trade, either between nations or individuals, is an interchange of commodities, in which the things that they respectively have to sell, constitute also their means of purchase: the supply brought by the one constitutes his demand for what is brought by the other. So that supply and demand are but another expression for reciprocal demand: and to say that value will adjust itself so as to equalize demand with supply, is in fact to say that it will adjust itself so as to equalize the demand on one side with the demand on the other.

§ 5. To trace the consequences of this law of International Values through their wide ramifications, would occupy more space than can be here devoted to such a purpose. But there is one of its applications which I will notice, as being in itself not unimportant, as bearing on the question which will occupy us in the next chapter, and especially as conducing to the more full and clear understanding of the law itself.

We have seen that the value at which a country purchases a foreign commodity, does not conform to the cost of production in the country from which the commodity comes. Suppose now a change in that cost of production; an improvement, for example, in the process of manufacture. Will the benefit of the improvement be fully

participated in by other countries? Will the commodity be sold as much cheaper to foreigners, as it is produced cheaper at home? This question, and the considerations which must be entered into in order to resolve it, are well adapted to try the worth of the theory.

Let us first suppose, that the improvement is of a nature to create a new branch of export: to make foreigners resort to the country for a commodity which they had previously produced at home. On this supposition, the foreign demand for the productions of the country is increased; which necessarily alters the international values to its advantage, and to the disadvantage of foreign countries, who, therefore, though they participate in the benefit of the new product, must purchase that benefit by paying for all the other productions of the country at a dearer rate than before. How much dearer, will depend on the degree necessary for re-establishing, under these new conditions, the Equation of International Demand. These consequences follow in a very obvious manner from the law of international values, and I shall not occupy space in illustrating them, but shall pass to the more frequent case, of an improvement which does not create a new article of export, but lowers the cost of production of something which the country already exported.

It being advantageous, in discussions of this complicated nature, to employ definite numerical amounts, we shall return to our original example. Ten yards of cloth, if produced in Germany, would require the same amount of labour and capital as twenty yards of linen; but, by the play of international demand, they can be obtained from England for seventeen. Suppose now, that by a mechanical improvement made in Germany, and not capable of being transferred to England, the same quantity of labour and capital which produced twenty yards of linen, is enabled to produce thirty. Linen falls one-third in value in the German market, as compared with other commodities produced in Germany. Will it also fall one-third as compared with English cloth, thus giving to England, in common with Germany, the full benefit of the improvement? Or (ought we not rather to say), since the cost to England of obtaining linen was not regulated by the cost to Germany of producing it, and since England, accordingly, did not get the entire benefit even of the twenty yards which Germany could have given for ten yards of cloth, but only obtained seventeen—why should she now obtain

more, merely because this theoretical limit is removed ten degrees further off?

It is evident that in the outset, the improvement will lower the value of linen in Germany, in relation to all other commodities in the German market, including, among the rest, even the imported commodity, cloth. If 10 yards of cloth previously exchanged for 17 yards of linen, they will now exchange for half as much more, or 25½ yards. But whether they will continue to do so, will depend on the effect which this increased cheapness of linen produces on the international demand. The demand for linen in England could scarcely fail to be increased. But it might be increased either in proportion to the cheapness, or in a greater proportion than the cheapness, or in a less proportion.

If the demand was increased in the same proportion with the cheapness, England would take as many times 25½ yards of linen, as the number of times 17 yards which she took previously. She would expend in linen exactly as much of cloth, or of the equivalents of cloth, as much in short of the collective income of her people, as she did before. Germany, on her part, would probably require, at that rate of interchange, the same quantity of cloth as before, because it would in reality cost her exactly as much; 25½ yards of linen being now of the same value in her market, as 17 yards were before. In this case, therefore, 10 yards of cloth for 25½ of linen is the rate of interchange which under these new conditions would restore the equation of international demand; and England would obtain linen one-third cheaper than before, being the same advantage as was obtained by Germany.

It might happen, however, that this great cheapening of linen would increase the demand for it in England in a greater ratio than the increase of cheapness; and that if she before wanted 1000 times 17 yards, she would now require more than 1000 times 25½ yards to satisfy her demand. If so, the equation of international demand cannot establish itself at that rate of interchange; to pay for the linen England must offer cloth on more advantageous terms: say, for example, 10 yards for 21 of linen; so that England will not have the full benefit of the improvement in the production of linen, while Germany, in addition to that benefit, will also pay less for cloth. But again, it is possible that England might not desire to increase her

consumption of linen in even so great a proportion as that of the increased cheapness; she might not desire so great a quantity as 1000 times 25½ yards: and in that case Germany must force a demand, by offering more than 25½ yards of linen for 10 of cloth; linen will be cheapened in England in a still greater degree than in Germany; while Germany will obtain cloth on more unfavourable terms, and at a higher exchange value than before.

After what has already been said, it is not necessary to particularize the manner in which these results might be modified by introducing into the hypothesis other countries and other commodities. There is a further circumstance by which they may also be modified. In the case supposed, the consumers of Germany have had a part of their incomes set at liberty by the increased cheapness of linen, which they may indeed expend in increasing their consumption of that article, but which they may, likewise, expend in other articles, and among others, in cloth or other imported commodities. This would be an additional element in the international demand, and would modify more or less the terms of interchange.

Of the three possible varieties in the influence of cheapness on demand, which is the more probable—that the demand would be increased more than the cheapness, as much as the cheapness, or less than the cheapness? This depends on the nature of the particular commodity, and on the tastes of purchasers. When the commodity is one in general request, and the fall of its price brings it within the reach of a much larger class of incomes than before, the demand is often increased in a greater ratio than the fall of price, and a larger sum of money is on the whole expended in the article. Such was the case with coffee, when its price was lowered by successive reductions of taxation; and such would probably be the case with sugar, wine, and a large class of commodities which, though not necessaries, are largely consumed, and in which many consumers indulge when the articles are cheap and economize when they are dear. But it more frequently happens that when a commodity falls in price, less money is spent in it than before: a greater quantity is consumed, but not so great a value. The consumer who saves money by the cheapness of the article, will be likely to expend part of the saving in increasing his consumption of other things: and unless the low price attracts a large class of new purchasers who were either not consumers of the

article at all, or only in small quantity and occasionally, a less aggregate sum will be expended on it. Speaking generally, therefore, the third of our three cases is the most probable: and an improvement in an exportable article is likely to be as beneficial (if not more beneficial) to foreign countries, as to the country where the article is produced.

* * * * * * * * * * *

§ 9. We now pass to another essential part of the theory of the subject. There are two senses in which a country obtains commodities cheaper by foreign trade; in the sense of Value, and in the sense of Cost. It gets them cheaper in the first sense, by their falling in value relatively to other things: the same quantity of them exchanging, in the country, for a smaller quantity than before of the other produce of the country. To revert to our original figures; in England, all consumers of linen obtained, after the trade was opened, 17 or some greater number of yards for the same quantity of all other things for which they before obtained only 15. The degree of cheapness, in this sense of the term, depends on the laws of International Demand, so copiously illustrated in the preceding sections. But in the other sense, that of Cost, a country gets a commodity cheaper, when it obtains a greater quantity of the commodity with the same expenditure of labour and capital. In this sense of the term, cheapness in a great measure depends upon a cause of a different nature: a country gets its imports cheaper, in proportion to the general productiveness of its domestic industry; to the general efficiency of its labour. The labour of one country may be, as a whole, much more efficient than that of another: all or most of the commodities capable of being produced in both, may be produced in one at less absolute cost than in the other; which, as we have seen, will not necessarily prevent the two countries from exchanging commodities. The things which the more favoured country will import from others, are of course those in which it is least superior; but by importing them it acquires, even in those commodities, the same advantage which it possesses in the articles it gives in exchange for them. Thus the countries which obtain their own productions at least cost, also get their imports at least cost.

This will be made still more obvious if we suppose two competing countries. England sends cloth to Germany, and gives 10 yards of

it for 17 yards of linen, or for something else which in Germany is the equivalent of those 17 yards. Another country, as for example France, does the same. The one giving 10 yards of cloth for a certain quantity of German commodities, so must the other: if, therefore, in England, these 10 yards are produced by only half as much labour as that by which they are produced in France, the linen or other commodities of Germany will cost to England only half the amount of labour which they will cost to France. England would thus obtain her imports at less cost than France, in the ratio of the greater efficiency of her labour in the production of cloth: which might be taken, in the case supposed, as an approximate estimate of the efficiency of her labour generally; since, France, as well as England, by selecting cloth as her article of export, would have shown that with her also it was the commodity in which labour was relatively the most efficient. It follows, therefore, that every country gets its imports at less cost, in proportion to the general efficiency of its labour.

This proposition was first clearly seen and expounded by Mr. Senior,[1] but only as applicable to the importation of the precious metals. I think it important to point out that the proposition holds equally true of all other imported commodities; and further, that it is only a portion of the truth. For, in the case supposed, the cost to England of the linen which she pays for with ten yards of cloth, does not depend solely upon the cost to herself of ten yards of cloth, but partly also upon how many yards of linen she obtains in exchange for them. What her imports cost to her is a function of two variables; the quantity of her own commodities which she gives for them, and the cost of those commodities. Of these, the last alone depends on the efficiency of her labour: the first depends on the law of international values; that is on the intensity and extensibility of the foreign demand for her commodities, compared with her demand for foreign commodities.

In the case just now supposed, of a competition between England and France, the state of international values affected both competitors alike, since they were supposed to trade with the same country, and to export and import the same commodities. The difference, therefore, in what their imports cost them, depended solely on the

[1] Three Lectures on the Cost of Obtaining Money, Lecture I, pp. 11–20.

other cause, the unequal efficiency of their labour. They gave the same quantities; the difference could only be in the cost of production. But if England traded to Germany with cloth, and France with iron, the comparative demand in Germany for those two commodities would bear a share in determining the comparative cost, in labour and capital, with which England and France would obtain German products. If iron were more in demand in Germany than cloth, France would recover, through that channel, part of her disadvantage; if less, her disadvantage would be increased. The efficiency, therefore, of a country's labour, is not the only thing which determines even the *cost* at which that country obtains imported commodities—while it has no share whatever in determining either their exchange *value*, or, as we shall presently see, their *price*.

## MILL: OF THE FOREIGN EXCHANGES[1]

Money is sent from one country to another for various purposes: such as the payment of tributes or subsidies; remittances of revenue to or from dependencies, or of rents or other incomes to their absent owners; emigration of capital, or transmission of it for foreign investment. The most usual purpose, however, is that of payment for goods. To show in what circumstances money actually passes from country to country for this or any of the other purposes mentioned, it is necessary briefly to state the nature of the mechanism by which international trade is carried on, when it takes place not by barter but through the medium of money.

§ 2. In practice, the exports and imports of a country not only are not exchanged directly against each other, but often do not even pass through the same hands. Each is separately bought and paid for with money. We have seen, however, that, even in the same country, money does not actually pass from hand to hand each time that purchases are made with it, and still less does this happen between different countries. The habitual mode of paying and receiving payment for commodities, between country and country, is by bills of exchange.

[1] Mill, Principles, Bk. III, chap. xx.

A merchant in England, A, has exported English commodities, consigning them to his correspondent B in France. Another merchant in France, C, has exported French commodities, suppose of equivalent value, to a merchant D in England. It is evidently unnecessary that B in France should send money to A in England, and that D in England should send an equal sum of money to C in France. The one debt may be applied to the payment of the other, and the double cost and risk of carriage be thus saved. A draws a bill on B for the amount which B owes to him: D, having an equal amount to pay in France, buys this bill from A, and sends it to C, who, at the expiration of the number of days which the bill has to run, presents it to B for payment. Thus the debt due from France to England, and the debt due from England to France, are both paid without sending an ounce of gold or silver from one country to the other.

In this statement, however, it is supposed, that the sum of the debts due from France to England, and the sum of those due from England to France, are equal; that each country has exactly the same number of ounces of gold or silver to pay and to receive. This implies, (if we exclude for the present any other international payments than those occurring in the course of commerce,) that the exports and imports exactly pay for one another, or in other words, that the equation of international demand is established. When such is the fact, the international transactions are liquidated without the passage of any money from one country to the other. But if there is a greater sum due from England to France, than is due from France to England, or *vice versâ*, the debts cannot be simply written off against one another. After the one has been applied, as far as it will go, towards covering the other, the balance must be transmitted in the precious metals. In point of fact, the merchant who has the amount to pay, will even then pay for it by a bill. When a person has a remittance to make to a foreign country, he does not himself search for someone who has money to receive from that country, and ask him for a bill of exchange. In this as in other branches of business, there is a class of middlemen or brokers, who bring buyers and sellers together, or stand between them, buying bills from those who have money to receive, and selling bills to those who have money to pay. When a customer comes to a broker

for a bill on Paris or Amsterdam, the broker sells to him, perhaps the bill he may himself have bought that morning from a merchant, perhaps a bill on his own correspondent in the foreign city: and to enable his correspondent to pay, when due, all the bills he has granted, he remits to him all those which he has bought and has not resold. In this manner these brokers take upon themselves the whole settlement of the pecuniary transactions between distant places, being remunerated by a small commission or percentage on the amount of each bill which they either sell or buy. Now, if the brokers find that they are asked for bills on the one part, to a greater amount than bills are offered to them on the other, they do not on this account refuse to give them; but since, in that case, they have no means of enabling the correspondents on whom their bills are drawn, to pay them when due, except by transmitting part of the amount in gold or silver, they require from those to whom they sell bills an additional price, sufficient to cover the freight and insurance of the gold and silver, with a profit sufficient to compensate them for their trouble and for the temporary occupation of a portion of their capital. This premium (as it is called) the buyers are willing to pay, because they must otherwise go to the expense of remitting the precious metals themselves, and it is done cheaper by those who make doing it a part of their especial business. But though only some of those who have a debt to pay would have actually to remit money, all will be obliged, by each other's competition, to pay the premium; and the brokers are for the same reason obliged to pay it to those whose bills they buy. The reverse of all this happens, if on the comparison of exports and imports, the country, instead of having a balance to pay, has a balance to receive. The brokers find more bills offered to them, than are sufficient to cover those which they are required to grant. Bills on foreign countries consequently fall to a discount; and the competition among the brokers, which is exceedingly active, prevents them from retaining this discount as a profit for themselves, and obliges them to give the benefit of it to those who buy the bills for purposes of remittance.

Let us suppose that all countries had the same currency, as in the progress of political improvement they one day will have: and, as the most familiar to the reader, though not the best, let us

suppose this currency to be the English. When England had the same number of pounds sterling to pay to France, which France had to pay to her, one set of merchants in England would want bills, and another set would have bills to dispose of, for the very same number of pounds sterling; and consequently a bill on France for 100*l.* would sell for exactly 100*l.*, or, in the phraseology of merchants, the exchange would be at par. As France also, on this supposition, would have an equal number of pounds sterling to pay and to receive, bills on England would be at par in France, whenever bills on France were at par in England.

If, however, England had a larger sum to pay to France than to receive from her, there would be persons requiring bills on France for a greater number of pounds sterling than there were bills drawn by persons to whom money was due. A bill on France for 100*l.* would then sell for more than 100*l.*, and bills would be said to be at a premium. The premium, however, could not exceed the cost and risk of making the remittance in gold, together with a trifling profit; because if it did, the debtor would send the gold itself, in preference to buying the bill.

If, on the contrary, England had more money to receive from France than to pay, there would be bills offered for a greater number of pounds than were wanted for remittance, and the price of bills would fall below par: a bill for 100*l.* might be bought for somewhat less than 100*l.*, and bills would be said to be at a discount.

When England has more to pay than to receive, France has more to receive than to pay, and *vice versâ*. When, therefore, in England, bills on France bear a premium, then, in France, bills on England are at a discount: and when bills on France are at a discount in England, bills on England are at a premium in France. If they are at par in either country, they are so, as we have already seen, in both.

Thus do matters stand between countries, or places, which have the same currency. So much of barbarism, however, still remains in the transactions of the most civilized nations, that almost all independent countries choose to assert their nationality by having, to their own inconvenience and that of their neighbours, a peculiar currency of their own. To our present purpose this makes no other difference, than that instead of speaking of equal sums of

money, we have to speak of *equivalent* sums. By equivalent sums, when both currencies are composed of the same metal, are meant sums which contain exactly the same quantity of the metal, in weight and fineness; but when, as in the case of France and England, the metals are different, what is meant is that the quantity of gold in the one sum, and the quantity of silver in the other, are of the same value in the general market of the world: there being no material difference between one place and another in the relative value of these metals. Suppose 25 francs to be (as within a trifling fraction it is) the equivalent of a pound sterling. The debts and credits of the two countries would be equal, when the one owed as many times 25 francs, as the other owed pounds. When this was the case, a bill on France for 2500 francs would be worth in England 100*l.*, and a bill on England for 100*l.* would be worth in France 2500 francs. The exchange is then said to be at par: and 25 francs (in reality 25 francs and a trifle more)[1] is called the par of exchange with France. When England owed to France more than the equivalent of what France owed to her, a bill for 2500 francs would be at a premium, that is would be worth more than 100*l.* When France owed to England more than the equivalent of what England owed to France, a bill for 2500 francs would be worth less than 100*l.*, or would be at a discount.

When bills on foreign countries are at a premium, it is customary to say that the exchanges are against the country, or unfavourable to it. In order to understand these phrases, we must take notice of what "the exchange" in the language of merchants, really means. It means the power which the money of the country has of purchasing the money of other countries. Supposing 25 francs to be the exact par of exchange, then when it requires more than 100*l.* to buy a bill for 2500 francs, 100*l.* of English money are worth less than their real equivalent of French money: and this is called, an exchange unfavourable to England. The only persons in England, however, to whom it is really unfavourable, are those who have money to pay in France; for they come into the bill market as

[1] Written before the change in the relative value of the two metals produced by the gold discoveries. The par of exchange between gold and silver currencies is now [1862] variable, and no one can foresee at what point it will ultimately rest.

buyers, and have to pay a premium; but to those who have money to receive in France, the same state of things is favourable; for they come as sellers and receive the premium. The premium, however, indicates that a balance is due by England, which must be eventually liquidated in the precious metals: and since, according to the old theory, the benefit of a trade consisted in bringing money into the country, this prejudice introduced the practice of calling the exchange favourable when it indicated a balance to receive, and unfavourable when it indicated one to pay: and the phrases in turn tended to maintain the prejudice.

§ 3. It might be supposed at first sight that when the exchange is unfavourable, or in other words, when bills are at a premium, the premium must always amount to a full equivalent for the cost of transmitting money: since, as there is really a balance to pay, and as the full cost must therefore be incurred by some of those who have remittances to make, their competition will compel all to submit to an equivalent sacrifice. And such would certainly be the case, if it were always necessary that whatever is destined to be paid should be paid immediately. The expectation of great and immediate foreign payments sometimes produces a most startling effect on the exchanges.[1] But a small excess of imports above exports, or any other small amount of debt to be paid to foreign countries, does not usually affect the exchanges to the full extent of the cost and risk of transporting bullion. The length of credit allowed, generally permits, on the part of some of the debtors, a postponement of payment, and in the mean time the balance may turn the other way, and

[1] On the news of Bonaparte's landing from Elba, the price of bills advanced in one day as much as ten per cent. Of course this premium was not a mere equivalent for cost of carriage, since the freight of such an article as gold, even with the addition of war insurance, could never have amounted to so much. This great price was an equivalent not for the difficulty of sending gold, but for the anticipated difficulty of procuring it to send; the expectation being that there would be such immense remittances to the Continent in subsidies and for the support of armies, as would press hard on the stock of bullion in the country (which was then entirely denuded of specie), and this, too, in a shorter time than would allow of its being replenished. Accordingly the price of bullion rose likewise, with the same suddenness. It is hardly necessary to say that this took place during the Bank restriction [1797–1819]. In a convertible state of the currency, no such thing could have occurred until the Bank stopped payment.

restore the equality of debts and credits without any actual transmission of the metals. And this is the more likely to happen, as there is a self-adjusting power in the variations of the exchange itself. Bills are at a premium because a greater money value has been imported than exported. But the premium is itself an extra profit to those who export. Besides the price they obtain for their goods, they draw for the amount and gain the premium. It is, on the other hand, a diminution of profit to those who import. Besides the price of the goods, they have to pay a premium for remittance. So that what is called an unfavourable exchange is an encouragement to export, and a discouragement to import. And if the balance due is of small amount, and is the consequence of some merely casual disturbance in the ordinary course of trade, it is soon liquidated in commodities, and the account adjusted by means of bills, without the transmission of any bullion. Not so, however, when the excess of imports above exports, which has made the exchange unfavourable, arises from a permanent cause. In that case, what disturbed the equilibrium must have been the state of prices, and it can only be restored by acting on prices. It is impossible that prices should be such as to invite to an excess of imports, and yet that the exports should be kept permanently up to the imports by the extra profit on exportation derived from the premium on bills; for if the exports were kept up to the imports, bills would not be at a premium, and the extra profit would not exist. It is through the prices of commodities that the correction must be administered.

Disturbances, therefore, of the equilibrium of imports and exports, and consequent disturbances of the exchange, may be considered as of two classes; the one casual or accidental, which, if not on too large a scale, correct themselves through the premium on bills, without any transmission of the precious metals; the other arising from the general state of prices, which cannot be corrected without the subtraction of actual money from the circulation of one of the countries, or an annihilation of credit equivalent to it; since the mere transmission of bullion (as distinguished from money), not having any effect on prices, is of no avail to abate the cause from which the disturbance proceeded.

It remains to observe, that the exchanges do not depend on the balance of debts and credits with each country separately, but with

all countries taken together. England may owe a balance of payments to France; but it does not follow that the exchange with France will be against England, and that bills on France will be at a premium; because a balance may be due to England from Holland or Hamburg, and she may pay her debts to France with bills of those places; which is technically called arbitration of exchange. There is some little additional expense, partly commission and partly loss of interest in settling debts in this circuitous manner, and to the extent of that small difference the exchange with one country may vary apart from that with others; but in the main, the exchanges with all foreign countries vary together, according as the country has a balance to receive or to pay on the general result of its foreign transactions.

## MILL: OF THE DISTRIBUTION OF THE PRECIOUS METALS THROUGH THE COMMERCIAL WORLD[1]

§ 1. Having now examined the mechanism by which the commercial transactions between nations are actually conducted, we have next to inquire whether this mode of conducting them makes any difference in the conclusions respecting international values, which we previously arrived at on the hypothesis of barter.

The nearest analogy would lead us to presume the negative. We did not find that the intervention of money and its substitutes made any difference in the law of value as applied to adjacent places. Things which would have been equal in value if the mode of exchange had been by barter, are worth equal sums of money. The introduction of money is a mere addition of one more commodity, of which the value is regulated by the same laws as that of all other commodities. We shall not be surprised, therefore, if we find that international values also are determined by the same causes under a money and bill system, as they would be under a system of barter; and that money has little to do in the matter, except to furnish a convenient mode of comparing values.

All interchange is, in substance and effect, barter: whoever sells commodities for money, and with that money buys other goods,

[1] Mill, Principles, Bk. III, chap. xxi.

really buys those goods with his own commodities. And so of nations: their trade is a mere exchange of exports for imports; and whether money is employed or not, things are only in their permanent state when the exports and imports exactly pay for each other. When this is the case, equal sums of money are due from each country to the other, the debts are settled by bills, and there is no balance to be paid in the precious metals. The trade is in a state like that which is called in mechanics a condition of stable equilibrium.

But the process by which things are brought back to this state when they happen to deviate from it, is, at least outwardly, not the same in a barter system and in a money system. Under the first, the country which wants more imports than its exports will pay for, must offer its exports at a cheaper rate, as the sole means of creating a demand for them sufficient to re-establish the equilibrium. When money is used, the country seems to do a thing totally different. She takes the additional imports at the same price as before, and as she exports no equivalent, the balance of payments turns against her; the exchange becomes unfavourable, and the difference has to be paid in money. This is in appearance a very distinct operation from the former. Let us see if it differs in its essence, or only in its mechanism.

Let the country which has the balance to pay be England, and the country which receives it, France. By this transmission of the precious metals, the quantity of the currency is diminished in England, and increased in France. This I am at liberty to assume. As we shall see hereafter, it would be a very erroneous assumption if made in regard to *all* payments of international balances. A balance which has only to be paid once, such as the payment made for an extra importation of corn in a season of dearth, may be paid from hoards, or from the reserves of bankers, without acting on the circulation. But we are now supposing that there is an excess of imports over exports, arising from the fact that the equation of international demand is not yet established: that there is at the ordinary prices a permanent demand in England for more French goods than the English goods required in France at the ordinary prices will pay for. When this is the case, if a change were not made in the prices, there would be a perpetually renewed balance to be

paid in money. The imports require to be permanently diminished, or the exports to be increased; which can only be accomplished through prices; and hence, even if the balances are at first paid from hoards, or by the exportation of bullion, they will reach the circulation at last, for until they do, nothing can stop the drain.

When, therefore, the state of prices is such that the equation of international demand cannot establish itself, the country requiring more imports than can be paid for by the exports; it is a sign that the country has more of the precious metals or their substitutes, in circulation, than can permanently circulate, and must necessarily part with some of them before the balance can be restored. The currency is accordingly contracted: prices fall, and among the rest, the prices of exportable articles; for which accordingly, there arises, in foreign countries, a greater demand: while imported commodities have possibly risen in price, from the influx of money into foreign countries, and at all events have not participated in the general fall. But until the increased cheapness of English goods induces foreign countries to take a greater pecuniary value, or until the increased dearness (positive or comparative) of foreign goods makes England take a less pecuniary value, the exports of England will be no nearer to paying for the imports than before, and the stream of the precious metals which had begun to flow out of England, will still flow on. This efflux will continue, until the fall of prices in England brings within reach of the foreign market some commodity which England did not previously send thither; or until the reduced price of the things which she did send, has forced a demand abroad for a sufficient quantity to pay for the imports, aided, perhaps, by a reduction of the English demand for foreign goods, through their enhanced price, either positive or comparative.

Now this is the very process which took place on our original supposition of barter. Not only, therefore, does the trade between nations tend to the same equilibrium between exports and imports, whether money is employed or not, but the means by which this equilibrium is established are essentially the same. The country whose exports are not sufficient to pay for her imports, offers them on cheaper terms, until she succeeds in forcing the necessary demand: in other words, the Equation of International Demand, under a money system as well as under a barter system, is the

law of international trade. Every country exports and imports the very same things, and in the very same quantity, under the one system as under the other. In a barter system, the trade gravitates to the point at which the sum of the imports exactly exchanges for the sum of the exports: in a money system, it gravitates to the point at which the sum of the imports and the sum of the exports exchange for the same quantity of money. And since things which are equal to the same thing are equal to one another, the exports and imports which are equal in money price, would, if money were not used, precisely exchange for one another.[1]

[1] The subjoined extract from the separate Essay previously referred to, will give some assistance in following the course of the phenomena. It is adapted to the imaginary case used for illustration throughout that Essay, the case of a trade between England and Germany in cloth and linen.

"We may, at first, make whatever supposition we will with respect to the value of money. Let us suppose, therefore, that before the opening of the trade, the price of cloth is the same in both countries, namely, six shillings per yard. As ten yards of cloth were supposed to exchange in England for fifteen yards of linen, in Germany for twenty, we must suppose that linen is sold in England at four shillings per yard, in Germany at three. Cost of carriage and importer's profit are left, as before, out of consideration.

"In this state of prices, cloth, it is evident, cannot yet be exported from England into Germany: but linen can be imported from Germany into England. It will be so; and, in the first instance, the linen will be paid for in money.

"The efflux of money from England, and its influx into Germany, will raise money prices in the latter country, and lower them in the former. Linen will rise in Germany above three shillings per yard, and cloth above six shillings. Linen in England, being imported from Germany, will (since cost of carriage is not reckoned) sink to the same price as in that country, while cloth will fall below six shillings. As soon as the price of cloth is lower in England than in Germany, it will begin to be exported, and the price of cloth in Germany will fall to what it is in England. As long as the cloth exported does not suffice to pay for the linen imported, money will continue to flow from England into Germany, and prices generally will continue to fall in England and rise in Germany. By the fall, however, of cloth in England, cloth will fall in Germany also, and the demand for it will increase. By the rise of linen in Germany, linen must rise in England also, and the demand for it will diminish. As cloth fell in price and linen rose, there would be some particular price of both articles at which the cloth exported and the linen imported would exactly pay for each other. At this point prices would remain, because money would then cease to move out of England into Germany. What this point might be, would entirely depend upon the circumstances and inclinations of the purchasers on both sides. If the fall of cloth did not much increase the demand for it in Germany, and the rise of linen did not diminish very rapidly the demand for it

§ 2. It thus appears that the law of international values, and, consequently, the division of the advantages of trade, among the nations which carry it on, are the same, on the supposition of money, as they would be in a state of barter. In international, as in ordinary domestic interchanges, money is to commerce only what oil is to machinery, or railways to locomotion, a contrivance to diminish friction. In order still further to test these conclusions, let us proceed to re-examine, on the supposition of money, a question which we have already investigated on the hypothesis of barter, namely, to what extent the benefit of an improvement in the production of an exportable article, is participated in by the countries importing it.

The improvement may either consist in the cheapening of some article which was already a staple production of the country, or in the establishment of some new branch of industry, or of some

in England, much money must pass before the equilibrium is restored; cloth would fall very much, and linen would rise, until England, perhaps, had to pay nearly as much for it as when she produced it for herself. But if, on the contrary, the fall of cloth caused a very rapid increase of the demand for it in Germany, and the rise of linen in Germany reduced very rapidly the demand in England from what it was under the influence of the first cheapness produced by the opening of the trade; the cloth would very soon suffice to pay for the linen, little money would pass between the two countries, and England would derive a large portion of the benefit of the trade. We have thus arrived at precisely the same conclusion, in supposing the employment of money, which we found to hold under the supposition of barter.

"In what shape the benefit accrues to the two nations from the trade is clear enough. Germany, before the commencement of the trade, paid six shillings per yard for broadcloth: she now obtains it at a lower price. This, however, is not the whole of her advantage. As the money-prices of all her other commodities have risen, the money-incomes of all her producers have increased. This is no advantage to them in buying from each other, because the price of what they buy has risen in the same ratio with their means of paying for it: but it is an advantage to them in buying anything which has not risen, and, still more, anything which has fallen. They, therefore, benefit as consumers of cloth, not merely to the extent to which cloth has fallen, but also to the extent to which other prices have risen. Suppose that this is one-tenth. The same proportion of their money-incomes as before, will suffice to supply their other wants; and the remainder, being increased one-tenth in amount, will enable them to purchase one-tenth more cloth than before, even though cloth had not fallen: but it has fallen; so that they are doubly gainers. They purchase the same quantity with less money, and have more to expend upon their other wants.

process rendering an article exportable which had not till then been exported at all. It will be convenient to begin with the case of a new export, as being somewhat the simpler of the two.

The first effect is that the article falls in price, and a demand arises for it abroad. This new exportation disturbs the balance, turns the exchanges, money flows into the country (which we shall suppose to be England), and continues to flow until prices rise. This higher range of prices will somewhat check the demand in foreign countries for the new article of export; and will diminish the demand which existed abroad for the other things which England was in the habit of exporting. The exports will thus be diminished; while at the same time the English public, having more money, will have a greater power of purchasing foreign commodities. If they make use of this increased power of purchase,

"In England, on the contrary, general money-prices have fallen. Linen, however, has fallen more than the rest, having been lowered in price by importation from a country where it was cheaper; whereas the others have fallen only from the consequent efflux of money. Notwithstanding, therefore, the general fall of money-prices, the English producers will be exactly as they were in all other respects, while they will gain as purchasers of linen.

"The greater the efflux of money required to restore the equilibrium, the greater will be the gain of Germany, both by the fall of cloth and by the rise of her general prices. The less the efflux of money requisite, the greater will be the gain of England; because the price of linen will continue lower, and her general prices will not be reduced so much. It must not, however, be imagined that high money-prices are a good, and low money-prices an evil, in themselves. But the higher the general money-prices in any country, the greater will be that country's means of purchasing those commodities, which, being imported from abroad, are independent of the causes which keep prices high at home."

In practice, the cloth and the linen would not, as here supposed, be at the same price in England and in Germany: each would be dearer in money-price in the country which imported than in that which produced it, by the amount of the cost of carriage, together with the ordinary profit on the importer's capital for the average length of time which elapsed before the commodity could be disposed of. But it does not follow that each country pays the cost of carriage of the commodity it imports; for the addition of this item to the price may operate as a greater check to demand on one side than on the other; and the equation of international demand, and consequent equilibrium of payments, may not be maintained. Money would then flow out of one country into the other, until, in the manner already illustrated, the equilibrium was restored; and, when this was effected, one country would be paying more than its own cost of carriage, and the other less.

there will be an increase of imports; and by this, and the check to exportation, the equilibrium of imports and exports will be restored. The result to foreign countries will be, that they have to pay dearer than before for their other imports, and obtain the new commodity cheaper than before, but not so much cheaper as England herself does. I say this, being well aware that the article would be actually at the very same price (cost of carriage excepted) in England and in other countries. The cheapness, however, of the article is not measured solely by the money-price, but by that price compared with the money incomes of the consumers. The price is the same to the English and to the foreign consumers; but the former pay that price from money incomes which have been increased by the new distribution of the precious metals; while the latter have had their money incomes probably diminished by the same cause. The trade, therefore, has not imparted to the foreign consumer the whole, but only a portion, of the benefit which the English consumer has derived from the improvement; while England has also benefited in the prices of foreign commodities. Thus, then, any industrial improvement which leads to the opening of a new branch of export trade, benefits a country not only by the cheapness of the article in which the improvement has taken place, but by a general cheapening of all imported products.

Let us now change the hypothesis, and suppose that the improvement, instead of creating a new export from England, cheapens an existing one. When we examined this case on the supposition of barter, it appeared to us that the foreign consumers might either obtain the same benefit from the improvement as England herself, or a less benefit, or even a greater benefit, according to the degree in which the consumption of the cheapened article is calculated to extend itself as the article diminishes in price. The same conclusions will be found true on the supposition of money.

Let the commodity in which there is an improvement, be cloth. The first effect of the improvement is that its price falls, and there is an increased demand for it in the foreign market. But this demand is of uncertain amount. Suppose the foreign consumers to increase their purchases in the exact ratio of the cheapness, or in other words, to lay out in cloth the same sum of money as before; the same aggregate payment as before will be due from foreign

countries to England; the equilibrium of exports and imports will remain undisturbed, and foreigners will obtain the full advantage of the increased cheapness of cloth. But if the foreign demand for cloth is of such a character as to increase in a greater ratio than the cheapness, a larger sum than formerly will be due to England for cloth, and when paid will raise English prices, the price of cloth included; this rise, however, will affect only the foreign purchaser, English incomes being raised in a corresponding proportion; and the foreign consumer will thus derive a less advantage than England from the improvement. If, on the contrary, the cheapening of cloth does not extend the foreign demand for it in a proportional degree, a less sum of debts than before will be due to England for cloth, while there will be the usual sum of debts due from England to foreign countries; the balance of trade will turn against England, money will be exported, prices (that of cloth included) will fall, and cloth will eventually be cheapened to the foreign purchaser in a still greater ratio, than the improvement has cheapened it to England. These are the very conclusions which we deduced on the hypothesis of barter.

The result of the preceding discussion cannot be better summed up than in the words of Ricardo. "Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed in such proportions amongst the different countries of the world as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter." Of this principle, so fertile in consequences, previous to which the theory of foreign trade was an unintelligible chaos, Mr. Ricardo, though he did not pursue it into its ramifications, was the real originator. No writer who preceded him appears to have had a glimpse of it: and few are those who even since his time have had an adequate conception of its scientific value.

§ 3. It is now necessary to inquire, in what manner this law of the distribution of the precious metals by means of the exchanges, affects the exchange value of money itself; and how it tallies with the law by which we found that the value of money is regulated when imported as a mere article of merchandize. For there is here

a semblance of contradiction, which has, I think, contributed more than anything else to make some distinguished political economists resist the evidence of the preceding doctrines. Money, they justly think, is no exception to the general laws of value; it is a commodity like any other, and its average or natural value must depend on the cost of producing, or at least of obtaining it. That its distribution through the world, therefore, and its different value in different places, should be liable to be altered, not by causes affecting itself, but by a hundred causes unconnected with it; by everything which affects the trade in other commodities, so as to derange the equilibrium of exports and imports; appears to these thinkers a doctrine altogether inadmissible.

But the supposed anomaly exists only in semblance. The causes which bring money into or carry it out of a country through the exchanges, to restore the equilibrium of trade, and which thereby raise its value in some countries and lower it in others, are the very same causes on which the local value of money would depend, if it were never imported except as a merchandize, and never except directly from the mines. When the value of money in a country is permanently lowered by an influx of it through the balance of trade, the cause, if it is not diminished cost of production, must be one of those causes which compel a new adjustment, more favourable to the country, of the equation of international demand: namely, either an increased demand abroad for her commodities, or a diminished demand on her part for those of foreign countries. Now an increased foreign demand for the commodities of a country, or a diminished demand in the country for imported commodities, are the very causes which, on the general principles of trade, enable a country to purchase all imports, and consequently the precious metals, at a lower value. There is therefore no contradiction, but the most perfect accordance in the results of the two different modes in which the precious metals may be obtained. When money flows from country to country in consequence of changes in the international demand for commodities, and by so doing alters its own local value, it merely realizes, by a more rapid process, the effect which would otherwise take place more slowly, by an alteration in the relative breadth of the streams by which the precious metals flow into different regions of the earth from the mining countries.

As therefore we before saw that the use of money as a medium of exchange does not in the least alter the law on which the values of other things, either in the same country, or internationally, depend, so neither does it alter the law of the value of the precious metal itself: and there is in the whole doctrine of international values as now laid down, a unity and harmony which is a strong collateral presumption of truth.

§ 4. Before closing this discussion, it is fitting to point out in what manner and degree the preceding conclusions are affected by the existence of international payments not originating in commerce, and for which no equivalent in either money or commodities is expected or received; such as a tribute, or remittances of rent to absentee landlords or of interest to foreign creditors, or a government expenditure abroad, such as England incurs in the management of some of her colonial dependencies.

To begin with the case of barter. The supposed annual remittances being made in commodities, and being exports for which there is to be no return, it is no longer requisite that the imports and exports should pay for one another: on the contrary, there must be an annual excess of exports over imports, equal to the value of the remittance. If, before the country became liable to the annual payment, foreign commerce was in its natural state of equilibrium, it will now be necessary for the purpose of effecting the remittances, that foreign countries should be induced to take a greater quantity of exports than before: which can only be done by offering those exports on cheaper terms, or in other words, by paying dearer for foreign commodities. The international values will so adjust themselves that either by greater exports, or smaller imports, or both, the requisite excess on the side of exports will be brought about; and this excess will become the permanent state. The result is, that a country which makes regular payments to foreign countries, besides losing what it pays, loses also something more, by the less advantageous terms on which it is forced to exchange its productions for foreign commodities.

The same results follow on the supposition of money. Commerce being supposed to be in a state of equilibrium when the obligatory remittances begin, the first remittance is necessarily made in money.

This lowers prices in the remitting country, and raises them in the receiving. The natural effect is that more commodities are exported than before, and fewer imported, and that, on the score of commerce alone, a balance of money will be constantly due from the receiving to the paying country. When the debt thus annually due to the tributary country becomes equal to the annual tribute or other regular payment due from it, no further transmission of money takes place; the equilibrium of exports and imports will no longer exist, but that of payments will; the exchange will be at par, the two debts will be set off against one another, and the tribute or remittance will be virtually paid in goods. The result to the interests of the two countries will be as already pointed out: the paying country will give a higher price for all that it buys from the receiving country, while the latter, besides receiving the tribute, obtains the exportable produce of the tributary country at a lower price.

## MILL: EFFECTS PRODUCED ON INTERNATIONAL EXCHANGE BY DUTIES ON EXPORTS AND ON IMPORTS[1]

* * * * * * * * * * *

§ 6. There is one more point, relating to the operation of taxes on commodities conveyed from one country to another, which requires notice; the influence which they exert on international exchanges. Every tax on a commodity tends to raise its price, and consequently to lessen the demand for it in the market in which it is sold. All taxes on international trade tend, therefore, to produce a disturbance and a re-adjustment of what we have termed the Equation of International Demand. This consideration leads to some rather curious consequences, which have been pointed out in the separate essay on International Commerce already several times referred to in this treatise.

Taxes on foreign trade are of two kinds—taxes on imports, and on exports. On the first aspect of the matter it would seem that both these taxes are paid by the consumers of the commodity; that taxes on exports consequently fall entirely on foreigners, taxes on

[1] Mill, Principles, Bk. V, chap. iv.

imports wholly on the home consumer. The true state of the case, however, is much more complicated.

"By taxing exports, we may, in certain circumstances, produce a division of the advantage of the trade more favourable to ourselves. In some cases we may draw into our coffers, at the expense of foreigners, not only the whole tax, but more than the tax; in other cases, we should gain exactly the tax; in others, less than the tax. In this last case, a part of the tax is borne by ourselves; possibly the whole, possibly even, as we shall show, more than the whole."

Reverting to the supposititious case employed in the Essay, of a trade between Germany and England in broadcloth and linen, "suppose that England taxes her export of cloth, the tax not being supposed high enough to induce Germany to produce cloth for herself. The price at which cloth can be sold in Germany is augmented by the tax. This will probably diminish the quantity consumed. It may diminish it so much that, even at the increased price, there will not be required so great a money value as before. Or it may not diminish it at all, or so little, that in consequence of the higher price, a greater money value will be purchased than before. In this last case, England will gain, at the expense of Germany, not only the whole amount of the duty, but more; for, the money value of her exports to Germany being increased, while her imports remain the same, money will flow into England from Germany. The price of cloth will rise in England, and consequently in Germany; but the price of linen will fall in Germany, and consequently in England. We shall export less cloth, and import more linen, till the equilibrium is restored. It thus appears (what is at first sight somewhat remarkable) that by taxing her exports, England would, in some conceivable circumstances, not only gain from her foreign customers the whole amount of the tax, but would also get her imports cheaper. She would get them cheaper in two ways; for she would obtain them for less money, and would have more money to purchase them with. Germany, on the other hand, would suffer doubly: she would have to pay for her cloth a price increased not only by the duty, but by the influx of money into England, while the same change in the distribution of the circulating medium would leave her less money to purchase it with.

"This however, is only one of three possible cases. If, after the imposition of the duty, Germany requires so diminished a quantity

of cloth, that its total value is exactly the same as before, the balance of trade would be undisturbed; England will gain the duty, Germany will lose it, and nothing more. If, again, the imposition of the duty occasions such a falling off in the demand that Germany requires a less pecuniary value than before, our exports will no longer pay for our imports; money must pass from England into Germany; and Germany's share of the advantage of the trade will be increased. By the change in the distribution of money, cloth will fall in England; and therefore it will, of course, fall in Germany. Thus Germany will not pay the whole of the tax. From the same cause, linen will rise in Germany, and consequently in England. When this alteration of prices has so adjusted the demand, that the cloth and the linen again pay for one another, the result is that Germany has paid only a part of the tax, and the remainder of what has been received into our treasury has come indirectly out of the pockets of our own consumers of linen, who pay a higher price for that imported commodity in consequence of the tax on our exports, while at the same time they, in consequence of the efflux of money and the fall of prices, have smaller money incomes wherewith to pay for the linen at that advanced price.

"It is not an impossible supposition that by taxing our exports we might not only gain nothing from the foreigner, the tax being paid out of our own pockets, but might even compel our own people to pay a second tax to the foreigner. Suppose, as before, that the demand of Germany for cloth falls off so much on the imposition of the duty, that she requires a smaller money value than before, but that the case is so different with linen in England, that when the price rises the demand either does not fall off at all, or so little that the money value required is greater than before. The first effect of laying on the duty is, as before, that the cloth exported will no longer pay for the linen imported. Money will therefore flow out of England into Germany. One effect is to raise the price of linen in Germany, and consequently in England. But this, by the supposition, instead of stopping the efflux of money, only makes it greater, because the higher the price, the greater the money value of the linen consumed. The balance, therefore, can only be restored by the other effect, which is going on at the same time, namely, the fall of cloth in the English and consequently in the German

market. Even when cloth has fallen so low that its price with the duty is only equal to what its price without the duty was at first, it is not a necessary consequence that the fall will stop; for the same amount of exportation as before will not now suffice to pay the increased money value of the imports; and although the German consumers have now not only cloth at the old price, but likewise increased money incomes, it is not certain that they will be inclined to employ the increase of their incomes in increasing their purchases of cloth. The price of cloth, therefore, must perhaps fall, to restore the equilibrium, more than the whole amount of the duty; Germany may be enabled to import cloth at a lower price when it is taxed, than when it was untaxed: and this gain she will acquire at the expense of the English consumers of linen, who, in addition, will be the real payers of the whole of what is received at their own custom-house under the name of duties on the export of cloth."

It is almost unnecessary to remark that cloth and linen are here merely representatives of exports and imports in general; and that the effect which a tax on exports might have in increasing the cost of imports, would affect the imports from all countries, and not peculiarly the articles which might be imported from the particular country to which the taxed exports were sent.

"Such are the extremely various effects which may result to ourselves and to our customers from the imposition of taxes on our exports; and the determining circumstances are of a nature so imperfectly ascertainable, that it must be almost impossible to decide with any certainty, even after the tax has been imposed, whether we have been gainers by it or losers." In general however there could be little doubt that a country which imposed such taxes would succeed in making foreign countries contribute something to its revenue; but unless the taxed article be one for which their demand is extremely urgent, they will seldom pay the whole of the amount which the tax brings in.[1] "In any case, whatever we gain is lost by somebody else, and there is the expense of the

[1] Probably the strongest known instance of a large revenue raised from foreigners by a tax on exports, is the opium trade with China. The high price of the article under the Government monopoly (which is equivalent to a high export duty) has so little effect in discouraging its consumption, that it is said to have been occasionally sold in China for as much as its weight in silver.

collection besides: if international morality, therefore, were rightly understood and acted upon, such taxes, as being contrary to the universal weal, would not exist."

Thus far of duties on exports. We now proceed to the more ordinary case of duties on imports. "We have had an example of a tax on exports, that is on foreigners, falling in part on ourselves. We shall therefore not be surprised if we find a tax on imports, that is, on ourselves, partly falling upon foreigners.

"Instead of taxing the cloth which we export, suppose that we tax the linen which we import. The duty which we are now supposing must not be what is termed a protecting duty, that is, a duty sufficiently high to induce us to produce the article at home. If it had this effect, it would destroy entirely the trade both in cloth and in linen, and both countries would lose the whole of the advantage which they previously gained by exchanging those commodities with one another. We suppose a duty which might diminish the consumption of the article, but which would not prevent us from continuing to import, as before, whatever linen we did consume.

"The equilibrium of trade would be disturbed if the imposition of the tax diminished, in the slightest degree, the quantity of linen consumed. For, as the tax is levied at our own custom-house, the German exporter only receives the same price as formerly, though the English consumer pays a higher one. If, therefore, there be any diminution of the quantity bought, although a larger sum of money may be actually laid out in the article, a smaller one will be due from England to Germany: this sum will no longer be an equivalent for the sum due from Germany to England for cloth, the balance therefore must be paid in money. Prices will fall in Germany and rise in England; linen will fall in the German market; cloth will rise in the English. The Germans will pay a higher price for cloth, and will have smaller money incomes to buy it with; while the English will obtain linen cheaper, that is, its price will exceed what it previously was by less than the amount of the duty, while their means of purchasing it will be increased by the increase of their money incomes.

"If the imposition of the tax does not diminish the demand, it will leave the trade exactly as it was before. We shall import as

much, and export as much; the whole of the tax will be paid out of our own pockets.

"But the imposition of a tax on a commodity almost always diminishes the demand more or less; and it can never, or scarcely ever, increase the demand. It may, therefore, be laid down as a principle, that a tax on imported commodities, when it really operates as a tax, and not as a prohibition either total or partial, almost always falls, in part upon the foreigners who consume our goods; and that this is a mode in which a nation may appropriate to itself, at the expense of foreigners, a larger share than would otherwise belong to it of the increase in the general productiveness of the labour and capital of the world, which results from the interchange of commodities among nations."

Those are, therefore, in the right who maintain that taxes on imports are partly paid by foreigners; but they are mistaken when they say, that it is by the foreign producer. It is not on the person from whom we buy, but on all those who buy from us, that a portion of our custom duties spontaneously falls. It is the foreign consumer of our exported commodities, who is obliged to pay a higher price for them because we maintain revenue duties on foreign goods.

There are but two cases in which duties on commodities can in any degree, or in any manner, fall on the producer. One is, when the article is a strict monopoly, and at a scarcity price. The price in this case being only limited by the desires of the buyer; the sum obtained for the restricted supply being the utmost which the buyers would consent to give rather than go without it; if the treasury intercepts a part of this, the price cannot be further raised to compensate for the tax, and it must be paid from the monopoly profits. A tax on rare and high priced wines will fall wholly on the growers, or rather, on the owners of the vineyards. The second case in which the producer sometimes bears a portion of the tax, is more important: the case of duties on the produce of land or of mines. These might be so high as to diminish materially the demand for the produce, and compel the abandonment of some of the inferior qualities of land or mines. Supposing this to be the effect, the consumers, both in the country itself and in those which dealt with it, would obtain the produce at smaller cost; and a part

only, instead of the whole, of the duty would fall on the purchaser, who would be indemnified chiefly at the expense of the landowners or mine-owners in the producing country.

Duties on importation may, then, be divided "into two classes: those which have the effect of encouraging some particular branch of domestic industry, and those which have not. The former are purely mischievous, both to the country imposing them, and to those with whom it trades. They prevent a saving of labour and capital, which, if permitted to be made, would be divided in some proportion or other between the importing country and the countries which buy what that country does or might export.

"The other class of duties are those which do not encourage one mode of procuring an article at the expense of another, but allow interchange to take place just as if the duty did not exist, and to produce the saving of labour which constitutes the motive to international, as to all other commerce. Of this kind are duties on the importation of any commodity which could not by any possibility be produced at home; and duties not sufficiently high to counterbalance the difference of expense between the production of the article at home and its importation. Of the money which is brought into the treasury of any country by taxes of this last description, a part only is paid by the people of that country; the remainder by the foreign consumers of their goods.

"Nevertheless, this latter kind of taxes are in principle as ineligible as the former, though not precisely on the same ground. A protecting duty can never be a cause of gain, but always and necessarily of loss, to the country imposing it, just so far as it is efficacious to its end. A non-protecting duty, on the contrary, would in most cases be a source of gain to the country imposing it, in so far as throwing part of the weight of its taxes upon other people is a gain; but it would be a means which it could seldom be advisable to adopt, being so easily counteracted by a precisely similar proceeding on the other side.

"If England, in the case already supposed, sought to obtain for herself more than her natural share of the advantage of the trade with Germany, by imposing a duty upon linen, Germany would only have to impose a duty upon cloth, sufficient to diminish the demand for that article about as much as the demand for linen

had been diminished in England by the tax. Things would then be as before, and each country would pay its own tax. Unless, indeed, the sum of the two duties exceeded the entire advantage of the trade; for in that case the trade, and its advantage, would cease entirely.

"There would be no advantage, therefore, in imposing duties of this kind, with a view to gain by them in the manner which has been pointed out. But when any part of the revenue is derived from taxes on commodities, these may often be as little objectionable as the rest. It is evident, too, that considerations of reciprocity, which are quite unessential when the matter in debate is a protecting duty, are of material importance when the repeal of duties of this other description is discussed. A country cannot be expected to renounce the power of taxing foreigners, unless foreigners will in return practise towards itself the same forbearance. The only mode in which a country can save itself from being a loser by the revenue duties imposed by other countries on its commodities, is to impose corresponding revenue duties on theirs. Only it must take care that those duties be not so high as to exceed all that remains of the advantage of the trade, and put an end to importation altogether, causing the article to be either produced at home, or imported from another and a dearer market."

# III

## CAIRNES: ON SOME MINOR TOPICS[1]

I PROPOSE to devote this concluding chapter on International Trade to the consideration of some topics which seem to fall more easily under this than under other headings—topics more or less involved, and in general tacitly decided in one sense or another, in most commercial and monetary discussions, but the current ideas respecting which are by no means in accordance with the main principles of international trade as these have been developed in the foregoing pages.

The first of those questions to which I would ask the reader's attention is the following: What is the interest of a country in the scale of its general prices? Is it for the advantage of the people, as a whole, that the scale should be high or low? and, assuming that they have an interest in either alternative, what is the nature of the advantage, and what are its limits? A moment's reflection will enable us to take at least one step toward the solution of our problem: the interest involved, whatever be its character and extent, can only be real so far forth as the high or low scale of prices is *not universal*—so far forth, that is to say, as it is not shared in the same degree by all countries. A country can have no permanent interest in an advance, or in a fall of prices, which embraces the whole commercial world. Such a change leaves the purchasing power of each country in relation to every other precisely where it was before; reciprocal demand, therefore, would continue unaffected, and, by consequence, international values, and all interests that depend on that relation. But where the advance or fall is not general—where the high or low scale of prices is confined to one, or to a few countries—it is not at once apparent how it may affect the interest of those concerned.

[1] John Elliot Cairnes (1823–1875). Some Principles of Political Economy newly Expounded (1874), Part III, chap. v.

I ought here, perhaps, to refer to a maxim advanced by some writers on monetary questions which, if well founded, would seem to preclude the existence of the phenomenon, the character of which I propose to discuss. It is held by the writers to whom I refer that the value of gold is, and must ever be, "the same all the world over."[1] Now if this be so, as the value of gold is merely another expression for the gold prices of commodities, it must follow that a high or a low scale of general prices existing in any country, and not shared by every other, is an impossible occurrence. As there is no local value of gold, so there can be no local scale of prices. I have no hesitation, however, in expressing my opinion that the doctrine in question, with whatever confidence advanced, is absolutely destitute of foundation. The truth on the subject seems to me to be as follows: among countries commercially connected there is a large class of commodities—all those, namely, which constitute the great staples of commerce, such as corn, flour, tea, sugar, metals, and most raw materials of industry —of which the prices can not vary much in different localities. As a rule the difference of prices will not be greater than the cost of carriage between the countries of production and consumption, always, of course, excepting the case where such articles come under the operation of local fiscal laws. In the exchange for commodities of this description, the value of gold, though not the same all the world over, does not greatly vary within the range of general commerce. But besides the commodities which form the staples of commerce, there are those which, through unsuitableness for distant traffic, or owing to some other obstacle, do not enter into international trade. With regard to these, there is nothing to prevent the widest divergence in their gold prices, or, therefore, in the value of gold in relation to them, not merely in remote quarters of the world, but sometimes even in localities within the same country; and the class of goods to which this description applies—it will vary in extent with the situation of each country and the means of communication at its command—far from being

[1] It is probable that by "the value of gold" the writers in question mean to designate its value *on loan* as well as its exchange value. But a reference to the rates of interest prevailing at any given time in the principal money markets of the world will suffice at once to refute this part of the doctrine.

insignificant, must under all circumstances include some of the most important articles of general consumption. To perceive this, it is only necessary to remember that the group includes the items of house accommodation, meat, and a large proportion of those things which fall under the head of "provisions"—a list which would have to be greatly enlarged if we had to deal with countries lying aside from the leading thoroughfares of commerce, or in which the means of communication have been imperfectly developed.

It is not true, therefore, that gold is of the same value "all the world over." On the contrary, it varies in value in different countries, and sometimes in different localities within the same country, in some degree in relation to almost all commodities, but, in relation to a numerous and important class of commodities, in a very considerable degree, and this, not merely as a temporary fluctuation, but permanently, as a normal state of things; and the problem we have now to consider is, whether, the case being so, it is advantageous for the inhabitants of a country that the scale of its prices, within the possible limits of permanent divergence, should be high or low in relation to the cosmopolitan level.

The majority of those who write or speak on commercial questions would, I imagine, have little hesitation in pronouncing in favor of the former alternative; and plainly the most obvious appearances support this view. A high scale of prices and large accumulated wealth for the most part go together, while low prices are the incident of districts remote from the main current of civilization, and in general poor and barbarous. If we inquire, however, as to the nature of the connection between the phenomena in each case, the answer does not by any means lie upon the surface. Let it be remembered that a difference in local prices, if considerable and permanent, can only exist in the case of commodities which can not be made the subject of foreign commerce. High prices, therefore, can not serve us in our dealings with foreign nations, and it is not by any means clear how the people of a country can be profited by exchanging their goods among themselves on a high pecuniary scale. Moreover it is evident that, with regard to those commodities which do enter into foreign commerce, it is the interest of each competing nation that their prices should

be relatively as low as possible; this being the condition of commanding a sale for them in neutral markets. Granting, therefore, that high prices and accumulated wealth on the one hand, and low prices and poverty on the other, are generally coincident phenomena, we have yet to discover wherein consists the bond that connects them.

The solution of the problem is contained in the following statement: What a nation is interested in is, not in having its prices high or low, but in having its gold cheap—understanding by cheapness[1] not low value, but *low cost*—a small sacrifice of ease and comfort; and it generally happens that cheap gold is accompanied by a high scale of prices. I say "generally happens," because it by no means follows as a necessary consequence that the two phenomena should go together. Gold may be cheap, and prices, at the same time, low, as a little reflection will easily convince us. The range of prices that actually prevails in a country is, speaking broadly, the resultant of two conditions—the cost at which that country produces or obtains its gold, and the cost at which it produces or obtains commodities. Fluctuations and disturbing causes apart, the gold and the commodities will exchange for each other in proportion to their costs; and cheap gold, therefore, will be the concomitant of high prices, only in so far as the cheapness incident to the gold is not shared by the other products of industry. The cheapness of gold, for example, in Australia does not occasion a high price of meat, of flour, of wool, of tallow, of hides, or of many other articles in that country, because the cost of producing those articles there is also very low. Any of them can be purchased in Australia at as low a price as in Europe: many of them, meat and wool, for example, at considerably lower prices. It is thus evident that cheap gold is no necessary concomitant of a high scale of prices. We must, therefore, distinguish between the two things; and, so distinguishing, I have now to show that the interest of a

[1] This is, I admit, a departure from ordinary usage, "cheap" being more commonly applied to price or value than to cost of production. But we much need a word to express low cost as distinguished from low price or value, and it seems to me that "cheapness" may conveniently be appropriated to this purpose. At all events, having had notice of the sense in which I use the word, the reader will not be misled.

nation lies, not in having its prices high, but in having its gold cheap; and that it is only in so far as high prices are an indication of cheap gold, and low prices an indication of dear gold, that either can be considered as furnishing any presumption whether in favor of or against the wealth or well-being of a community.

As I remarked just now, the problem we are considering can only arise with reference to *relative* prices. A rise or fall of prices shared by all nations equally can not affect the interest of any; and similarly the cheapness or dearness of gold—considered in the capacity in which we are now regarding it, as the instrument of general commerce, not as a commodity intended for consumption—is only of importance in so far as it is not universal. Gold cheapened everywhere and in the same degree, would mean, other things being the same, an equal and universal rise of prices, and there would obviously be no advantage in obtaining our gold at a lower cost if we were compelled to give proportionally more of it for all that we required. But assuming—what is simple matter of fact—that the cost at which different nations obtain their gold is different—that the cost may be reduced in some countries without undergoing a corresponding reduction in others—then a manifest advantage arises to a nation from the cheapness of its gold; for just in proportion as it obtains its gold at small cost—by a small expenditure of labor and abstinence—it will obtain at small cost all its imported commodities. The advantage would, indeed, be confined to its foreign trade. In domestic exchanges prices would adapt themselves to the cheapened cost of money, and in this field of its activity neither good nor evil would result for the nation as a whole; but in its dealings with foreign nations it would be otherwise. In relation to them, its position, as commanding gold on terms of exceptional cheapness, would be one of vantage, and would enable it through this cheapened medium to obtain from them, on terms correspondingly advantageous, all that they are capable of supplying.

Such is the nature of the advantage which a country derives from the relative cheapness of its gold; and, as I have already remarked, in old countries cheap gold is generally accompanied by a high scale of prices for all commodities not falling within the range of international trade. To exhibit the grounds of this connection we may take the case of Great Britain. The cost of gold is lower in

Great Britain than in any country in Europe, or, we may say broadly, than in any in the world, America and Australia excepted. The evidence of this is to be found in the scale of our industrial remuneration measured in gold.[1] To what is the fact to be attributed? To this, that we possess in our coal, iron, and other mineral fields, combined with the skill and energy of our inhabitants, superior resources to those possessed by other countries for the production of certain manufactures in extensive demand throughout the world. Producing such manufactures at less cost than they can be produced at by other nations, and finding for them an extensive demand throughout the world, we are enabled at once to undersell other nations in neutral markets, and yet at the same time to obtain for our products a price which bears a larger proportion to their cost of production—to the labor and abstinence employed in producing them—than the price obtained by foreign nations for their products bears to the cost of such products. A given expenditure of labor and abstinence in this country thus enables us to command a larger result in gold than the same expenditure would enable foreign nations to command. In other words, we obtain our gold cheaper, while, as involved in this result, the scale of industrial remuneration, measured in gold, is higher with us than with them. All this, I say, is the consequence of the great and exceptional advantages possessed by this country in certain departments of industry. We have here the explanation of our cheap gold, but not of our high scale of prices.[2] The explanation of the latter phenomenon lies in the fact that those industrial advantages are not general, but confined to a few departments of production. Supposing that they extended over the whole, or the greater portion, of our industrial field, our position would resemble that of some of the Australian colonies; and we should, along with cheap gold, have a low scale of general prices. In fact, however, the case is otherwise. We are in the position of an old country. Our land has all long since been appropriated, and, to supply us with food, even very inferior qualities of soil have been brought under the plow, and

[1] This part of the problem has been ably worked out by Mr. Senior, in his well-known Essay, already referred to, "On the Cost of Obtaining Money."

[2] Points which Mr. Senior omitted to discriminate, as Mr. Mill has pointed out.

are cultivated at high cost. Food and provisions of all sorts, consequently, are dear; so also is house accommodation, and in general all those things which can not easily be made the subject of international commerce. In these respects we enjoy no special advantages over other nations: in obtaining gold, however, as has been shown, we do possess such advantages. Gold, therefore, with us exchanges in larger proportion against all this class of commodities than in other countries; but this is only in other words to say that the scale of prices over this area of exchange is higher here than in them. High prices, thus, in England are a consequence of cheap gold; and our cheap gold enables us to command, on terms proportionally favorable, the products of other countries. But we should equally enjoy this advantage, while we should also enjoy others in addition, if, having our gold as cheap as now, our scale of prices was at the same time as low as in other countries; for this would imply that our industry was as productive in all its departments as in those through which we obtain our gold. It can not, therefore, be said that high prices are in themselves advantageous to a country: nevertheless, in so far as they are an indication of cheap gold, they are an evidence that the country in which they exist occupies a position of vantage in the world of commerce, and high prices will therefore, under such circumstances, generally be accompanied with commercial prosperity and large accumulated wealth. There is just one exception to this statement. It occurs where the scale of prices is raised through the operation of a protective tariff. Gold might, in this case, be cheap, and yet none of the advantages of cheap gold would follow; for, as I have explained, it is only through foreign trade that those advantages are realized, and just in so far as Protection is operative, the country maintaining it will be excluded from foreign trade. Countries, therefore, in which prices are kept high by Protection, are in the singular position of securing cheap gold, subject to the condition that it shall *not* be spent in the only market where advantage would arise from its cheapness.

§ 2. So much I have thought it worth while to say on the subject of high and low prices. I now turn to another topic, also much

implicated in commercial discussions, and on which some strange notions would seem to be afloat. That a nation is enriched by its foreign trade is mostly taken for granted, and with good reason; but what is the nature of the gain? and by what standard are we to measure its amount? We are all familiar with the doctrine of the Balance of Trade, according to which celebrated theory the gain on foreign trade was measured by the excess of exports over imports, and consisted in the gold and silver which were supposed to come from foreign countries in liquidation of the balance. That view is now, I suppose, pretty generally abandoned. But I have observed of late, both in the press and among parliamentary speakers, a curious modern inversion of the ancient doctrine. I have seen it laid down, with much exultation over the ignorance of our ancestors, that the gain in our foreign commerce, instead of being measured, as was formerly thought, by the excess of exports over imports, is, on the contrary, measured by the excess of imports over exports. A contributor to an important provincial paper, writing some time since under the influence of this notion, calculated that the gain of England from her foreign trade amounted to about £100,000,000 sterling; this being about the amount by which her imports in that year exceeded her exports. If I mistake not, it was a part of the doctrine that this sum represented the profits of our merchants engaged in foreign trade. The reader who has followed the explanations given in a former chapter of the causes governing the relation of exports and imports in the external trade of countries will not need any further refutation of this extravagant notion. I may just add, as a sufficient *reductio ad absurdum*, that, inasmuch as the external trade of many prosperous communities exhibits a constant excess of exports over imports, it would follow from this view that all such communities are undergoing a steady course of impoverishment, and that those of their inhabitants who engage in foreign trade only incur losses on their investments. Such speculations show how little the Political Economy of some among us is in advance of the ideas of the seventeenth century.

Another method by which it is frequently attempted to estimate the gain on foreign trade proceeds on the assumption that such gain is identical with the mercantile profits accruing upon the capital

thus invested. This view is only less absurd than the former, in not identifying the amount of mercantile profit with the balance on the external trade. According to it, if we suppose the total capital embarked in the foreign trade of Great Britain to be £500,000,000, and the rate of profit £10 per cent., it would follow that the gain to the country upon her foreign trade would be represented by £50,000,000 sterling. This way of regarding the subject is, I imagine, sufficiently prevalent among our mercantile classes; but it only affords a proof the more how very little those classes have yet contrived to appropriate of the elementary truths of the science in whose name they so often speak. The notion betrays a fundamental misconception of the nature, not merely of foreign trade, but of all trade, and of the end and purpose for which it exists. "Consumption," says Adam Smith, "is the end and purpose of all production." . . . "The maxim," he observes, "is so perfectly self-evident that it would be absurd to attempt to prove it." Not less self-evident is it that the end and purpose of all trade is to cheapen production, and so to minister more effectually to the ultimate end—the need of the consumer. But the gain upon trade must surely consist in the degree in which it fulfills its proper end—must, therefore, consist, not in the profits of traders, but in the advantage which it brings to those for whose behoof the trader exists. It is true the trader's motive when engaging in trade is to make a profit; but not the less is his *raison d'être* as a trader to minister to the wants of others. He must have his profit, or he will cease to trade; but his profit, though an incident of the good resulting from his office, is not the measure of it. The measure of the service which he renders—of the importance of his function—is not this, but the benefit he confers on the community whose servant he is; and this benefit is great in proportion to his success in serving the consumer; in other words, in cheapening commodities—in diminishing the obstacles which exist to the satisfaction of human wants. Nothing, therefore, can betray a more profound misconception of the true nature of trade and the purpose for which it exists than to represent the advantages derivable from it as measured by the profits of the agents who carry it on. It would be just as reasonable to represent the advantages of learning as measured by the salaries of teachers.

What, then, is the true criterion of the gain on foreign trade? I reply, the degree in which it cheapens[1] commodities, and renders them more abundant. Foreign trade not merely supplies us with commodities more cheaply than we could produce them from our own resources, but supplies us with many commodities which, without it, we could not obtain at all. The degree in which it does this is the true criterion and measure of the gain, but it is a measure which palpably does not admit of being applied in practice. To determine the amount or extent of the advantage derivable from foreign trade is, and, I venture to say, must ever be, an absolutely insoluble problem—a truth which will be sufficiently apparent if we advert to some of the data on which its solution depends.

As I have just said, one portion of the gain derived from foreign trade consists in the supply it yields us of commodities not capable of being produced in our own country. Great Britain, for example, obtains in this way her tea and sugar; and it will, perhaps, be thought that the satisfaction derived from the consumption of these articles constitutes the gain to the British consumer upon so much of our foreign trade. Even if this were so, it is pretty evident that the satisfaction in question is not capable of quantitative measurement. But, in point of fact, the problem is far more complicated than such a solution supposes; for it must not be forgotten that, in the event of our being excluded from the countries which furnish us with tea and sugar, we should have at our disposal all the capital now employed in producing the commodities in exchange for which tea and sugar are now obtained. This capital would then be available for the production of substitutes, or, in case none were forthcoming, for the production of other things; and the gain upon this portion of our foreign trade would be represented by the difference between the advantage conferred on the community by its present supply of tea and sugar, and that which it would receive from the substitutes, or other things, whatever these might be, which, in their absence, we might produce from our own resources. But, as we have no means of measuring accurately the satisfactions which we at present enjoy from the consumption of the articles in

[1] The reader will bear in mind the sense in which I use "cheapen"; viz., as equivalent to lowering cost, to reducing the sacrifices involved in procuring a commodity.

question, and still less of measuring those which we might derive from such things as in their absence we might provide ourselves with, it is evident that an accurate, or even an approximate, determination of the advantages accruing to us from our foreign commerce, so far at least as its function is to furnish us with articles we can not ourselves produce, is absolutely beyond our reach. All we can say with confidence is that the tastes and wants which are now satisfied through this service of foreign commerce are of a more imperious kind than any which our labor and capital, employed upon the materials furnished to us by our own country, are capable of satisfying; since, if it were not so, so much of our foreign trade as it represents would not exist. We are thus justified in concluding that there is a real gain, but beyond this our data do not carry us. We are absolutely without the means of estimating its amount.

So much for one portion of our foreign trade. With regard to that more important part of it, of which the function is, not to supply us with commodities which we are incapable of producing, but to cheapen those which we might produce, the case might here seem to be more manageable. In order to ascertain the gain on this part of our trade, the data necessary would be, first, a determination of the cost at which we actually obtain our imported articles of the class under consideration; and, secondly, a determination of that at which we could produce them if thrown upon our own resources. The difference would represent what we gain by importation, and the data might seem to be not beyond our reach. When, however, we come to look closely at the problem, we find ourselves once more estopped by insuperable difficulties; for, to take a simple illustration—on the supposition that we import from foreign countries 10,000,000 quarters of wheat, how are we to estimate the gain which the nation derives from obtaining so much of its food in this way? We know, indeed, or we may ascertain, at least approximately, the cost in labor and abstinence of the 10,000,000 quarters of wheat which we import. It would be represented by the cost of the commodities which we export to pay for them. We know again, or we may ascertain, the cost at which wheat is now raised in this country, when grown under conditions which determine its average selling price. But what we do not know, and what we have no possible means of ascertaining, is the cost

at which an addition of 10,000,000 quarters to our present home supply could be produced from the soil of Great Britain. Inasmuch as, in order to produce this quantity, it would be necessary to bring under cultivation for wheat soils far inferior to any now devoted to that purpose, we may be quite confident that the cost would be immensely greater than any portion of our home supply is now raised at; immensely greater, therefore,[1] than that at which we obtain the quantity now imported; but by how much greater we are absolutely without the means of determining—I might almost say, of conjecturing; and it is evident that the same argument applies with equal force to every article of raw produce that we import. It follows that, with regard to commodities capable of being produced in the country, no less than with regard to those which can only be obtained from foreign sources, the data for ascertaining the quantum of gain accruing to us from foreign trade are absolutely wanting. We know the nature of the gain: it consists in extending the range of our satisfactions, and in cheapening the cost at which such as in its absence would not be beyond our reach are obtained; and we know that the amount which it brings to us under each of these categories can not but be very great; but beyond this indefinite and vague result our data do not enable us to pass.

## CAIRNES: THE AUSTRALIAN EPISODE[2]

In the discussions which have taken place respecting the probable consequences of the Californian and Australian gold discoveries, there is a branch of the general question which has not yet received from economists that degree of attention, to which from its scientific importance it seems to be entitled. I allude to the effects produced by those events in the countries which have been the scene of their occurrence. In the great world of commerce, the action of the new money for the most part escapes notice amid the

[1] Home and imported wheat, quality for quality, selling in the same market at the same price, and the average price of home wheat being governed by the cost of producing the most costly portion, it follows that this cost will represent to us the cost of the imported portion of our wheat supply.

[2] John Elliot Cairnes (1823–1875), in *Frazer's Magazine*, 1859, reprinted in "Essays in Political Economy," pp. 20–49.

variety and complexity of the phenomena in which it is involved. The area over which the increasing supplies have to act is immense, the extraneous incidents affecting the course of their diffusion are numerous, and the real tendency of the movement is thus in these cosmopolitan transactions not easily discoverable. But within the more limited sphere of the auriferous countries this is not the case. The gold discoveries have there been the predominant influence, and being less controlled by circumstances, the real character of the new agencies and the results to which they are leading come distinctly and prominently into view. California and Australia, during the period of their auriferous history, furnish us with what Bacon would call "an ostensive or predominant instance" of the action of such agencies, showing their nature (to borrow his language) "naked and palpable, and even in its exaltation, or in the highest degree of its power—that is to say, emancipated or freed from impediments, or at least, by force of its native energy, dominating over these, suppressing and coercing them."[1] Hence, by studying the effects of the gold discoveries in these countries, we may gain a clearer and steadier view of the real nature of the causes which are at work than we are likely to obtain from the more extended and complicated transactions of general commerce. By tracing the events which are there presented, we may be guided to conclusions which (if the illustration be allowed) may serve as a sort of economic chart of the new monetary influences—a chart which, though it may be drawn upon an exaggerated scale, will all the more clearly indicate the true direction of the currents, and the ultimate goal whither they are bearing us.

With this view, I propose in the following paper to examine the effects of the gold discoveries in Australia on its trade, industry, and pecuniary relations. The course of events in California during its auriferous history has been extremely similar, and the description of the movement in the former country will in its main features be found applicable to the latter.

Regarded in its economic aspects, the discovery of gold in Australia may be thus briefly described: It was an occurrence by which a common labourer was enabled, by means of a simple process

[1] Novum Organon, Lib. II, Aph. 24.

requiring for its performance little capital or skill, to obtain about a quarter of an ounce of gold—in value about £1 sterling—on an average in the day.[1] This is the fundamental fact from which the remarkable series of events which we have lately been contemplating took its rise, and to which the whole movement following upon the gold discoveries is ultimately traceable. The immediate effect was a general disorganization of industry throughout the Australian colonies. The ordinary pursuits of the place were for a time entirely suspended; and the imaginations and hopes of the community outstripping even the marvellous realities of the case, the whole industrial population rushed as by a single impulse to the gold-fields. The gold fever, however, in this its first and full intensity, was not of long duration. Actual trial soon reduced the extravagant expectations raised by the first announcements to a more sober and correct appreciation of the true conditions of the discovery. Those who had overrated the gain, as well as those whose constitution and habits unfitted them for the toils and exposure of gold-digging, and who did not fall victims to their mistake, returned after a short trial to their former occupations. The extraordinary excitement subsided; but in the meantime a change had taken place in the conditions of Australian industry, a new and vigorous branch of production had struck root, overshadowing all the old occupations of the country and entirely superseding many of them, and a new monetary *régime* had been inaugurated.

The immediate result of the change was a general rise of money wages throughout the country. Formerly the wages of common labour in Australia had ranged from 3 s. to 5 s. a day. The same labour was now, by washing the auriferous sand, capable of producing gold worth 20s. a day. It followed as a necessary consequence that, other things being equal, hired labourers would not work for less. Other things indeed were not equal. The toil of gold-digging was severe, its results were precarious, and the further the removal from the coast the higher was the price of provisions. All these circumstances influenced wages in different occupations and in different localities; but, making allowance for these, the

[1] Correspondence Relative to the Late Discoveries of Gold in Australia, pp. 32, 52. Presented to Parliament February, 1852.

standard of pecuniary remuneration in Australia was henceforth the rate of earnings on the gold-fields.

During the two years immediately following the first discoveries, this standard continued at the high point above indicated—namely, about a quarter of an ounce of gold per man each day, equal to about £1 sterling; but towards the close of 1853 a great decline in the proceeds of gold-digging took place. The cream of the richest auriferous deposits had by this time been skimmed away; and it was henceforth necessary to dig deeper for materials which, when reached, proved of inferior quality. The Commissioners appointed in the following year to report on the gold-fields accordingly describe a great falling off at this time from the richness of the early returns;[1] and although many new gold-fields have since been opened the high average standard of the early discoveries has not again been reached.[2] During the two years just passed (1857 and 1858), the rate of gold earnings per man has not exceeded on an average ten shillings a day—a decline of one-half from the early returns. On the whole, we may say that during the first and most productive period of gold-digging, the standard of money wages in Australia rose in rather more than a fourfold proportion as compared with the pre-gold times, and that during the last five years this proportion has been reduced by one-half; so that money wages in Australia are at the present time (1859) rather more than double those which formerly prevailed.[3]

But this rise in the pecuniary remuneration of the labourer involved further consequences. The Australian employer could not continue to pay quadruple or double rates to his workmen while the commodities which he sold remained at their former price. In order to the maintenance of his profit, it was necessary that the price of Australian productions should rise in proportion as wages had risen; and this result accordingly followed in due course.

[1] Further Papers Relative to the Discovery of Gold in Australia, p. 56. Presented to Parliament February, 1856.

[2] Westgarth, Victoria (1857), p. 171.

[3] Ibid., p. 150. (Since 1859 the rates, with occasional variations, have on the whole slightly declined, following the course of gold production (1872).)

The advance, however, in money wages and prices which these circumstances necessitated, though rapid, was not instantaneous.[1] For more than a year after the gold discoveries had occurred, it was held sensibly in check by the peculiar state of the local currencies. For there was at this time no mint in Australia; the increased requirements for coin could only be met by a transmission of bullion to London, there to be coined, and afterwards re-imported; and this process required from six to eight months at the least for its accomplishment. Pending the arrival of the new coins, prices were not indeed prevented absolutely from rising; for numerous expedients were in their absence freely resorted to for supplying the place of the ordinary currency;[2] but nevertheless prices were, by the straitness of the circulation, kept very considerably under their natural level, as determined by the cost of gold,—a fact which was sufficiently proved by a remarkable fall in the price of gold throughout the whole of this period.[3] The arrival, however, of sovereigns in large quantities from England, in the winter of 1852–53, quickly put an end to this exceptional state of the markets. The price of gold, and with it the prices of other things, rose to their natural level; and pecuniary rates generally throughout the country were brought permanently into conformity with the new conditions of producing gold.

But the advance in general prices, which was thus easily and rapidly effected within the limited area of the gold districts, could by no means be accomplished with the same facility amongst the great commercial populations of the world. The disturbance of industrial pursuits in the larger theatre, though resulting in an extensive emigration, was yet, in comparison with the general business of the world, inconsiderable, while the supply of gold required, in order to render possible a fall in its value over so large an area of transactions, was immense. The necessary conditions, therefore,

[1] See the Table of Prices contained in Mr. Westgarth's "Address to the Melbourne Chambers of Council," given in the Appendix to his "Victoria, or Australia Felix" (1853).

[2] Of which expedients the passing of the Bullion Act by the government of South Australia was the most important.

[3] A fall from £3 17s. 10½d. per ounce, the London Mint price, to 60s., 50s., and, it is stated, in some instances to 40s. per ounce. See the Appendix to Westgarth's "Victoria, or Australia Felix" (1853).

to a rise in general prices not being susceptible of speedy fulfilment, money rates throughout the world at large did not, and could not, advance with the same rapidity with which they advanced in the gold countries. A divergence of local prices and rates in Australia from the general level of commercial countries has been the necessary consequence,—a divergence which has altered fundamentally her commercial position in relation to the rest of the world, and has been followed by a series of changes in her domestic industry and foreign trade which I shall now attempt to describe.

The great staple industry of Australia has, from an early period in the history of the colony, been her cattle-farming; the advantages which the country possesses for this pursuit in her extensive open plains, covered with rich natural grass, being unsurpassed in any part of the world. The fruits of this industry are the usual pastoral products, of which butcher's meat, wool, and tallow are the principal. Until the occurrence of the remarkable events we are considering, the two latter of these constituted the leading commodities of the foreign trade of the country. For the former—butcher's meat—as it was unfit for a distant traffic, she was compelled to trust for a market to the local population, which being extremely limited, the supply of meat was with difficulty disposed of, and the article was consequently often a drug in the colonial markets. The difficulty, however, thence arising to the pastoral interest, was met by the conversion of a large portion of their meat into tallow, and by the starting of an export trade in this commodity. By this means the several branches of trade connected with pastoral farming in Australia were placed upon a sound foundation, and by the beginning of 1851 they were in a highly flourishing condition. But in the summer of that year the gold discoveries occurred, and the consequences which have ensued in this leading department of her industry have been not a little remarkable.

On the first outbreak of the gold mania in 1851, the pastoral interest was subjected to the same inconvenience which was felt by all other occupations in Australia. The minds of shepherds and shearers were not proof to the attractions which had acted so powerfully on workmen in every other walk of industry, and the "squatting" stations were for a time abandoned for the more enticing pursuits of the gold-fields. As the only means of obtaining

the requisite supply of labour, the squatters were obliged to submit to the same advance in wages which at this time took place in all other occupations. But, as has been pointed out, a rise in money wages requires (if profits are to be maintained) a corresponding rise in the price of the commodities which the more highly-priced labour produces. This necessary rise was effected without difficulty in articles produced in Australia for domestic consumption; but the chief product of the pastoral industry was wool, and the chief market for wool was Europe, in which a fourfold or a twofold rise in price—such a rise, that is to say, as would have indemnified the Australian farmer for the advance in his labour rates—was simply impossible, or at the least could only have been obtained by a curtailment of supply, which, as Europe had other resources for this material besides the Australian sheep farms, it was not in the power of Australia to effect. On the news, therefore, of the gold discoveries reaching this country, great alarm was felt for the stability of this trade. Mr. Lalor, in his work on "Money and Morals," strongly urged upon Government the duty of assisting the emigration of shepherds with a view to supply the necessary labour. But supposing this were done, what security was there that the emigrating shepherds would not follow their predecessors to the gold-fields? In truth the wool trade was at this time in serious jeopardy. It has been saved from the danger that was impending through a circumstance which, in the first excitement of the movement, escaped the attention of observers—through the influence, namely, which the same event that endangered the supply of wool has exercised on other branches of the industry to which wool belongs. The immense immigration which followed the gold discoveries created a sudden demand for butcher's meat; a more than quadruple rise in the price of meat in Australia has been the consequence,—a rise which has covered the increased outlay on sheep-farming, thus providing the necessary inducement for the continuance of the supply of sheep, and therefore of wool. The wool trade of Australia has thus been preserved from extinction; but it is important to observe that it is now upon a different footing from that on which it formerly stood. Previous to the gold discoveries, while wool formed the leading product of pastoral industry, the extension of sheep-farming depended principally on the

extension of the demand, chiefly in Europe, for this article. But since that event, wool has, in the calculation of the farmer's profits, become subordinate to meat, which is now the great support and mainstay of his trade. The progress of pastoral farming will therefore in future be governed, not by the requirements of Europe for wool, but by those of Australia for meat,—in other words, by the increase of the colonial population; and as this cannot be expected to keep pace with the general demand for wool, a falling off in the rate of increase at which this branch of industry was formerly progressing may accordingly be looked for; indeed, the decline has already become very apparent.[1]

So far as to the pastoral industry of Australia. Let us now trace the influence of the gold discoveries upon the occupation which, along with pastoral pursuits, forms in general the principal resource of young communities—agriculture.

If we are to accept the very high authority of Humboldt, the discovery of the Australian gold-fields should rather assist than hinder the progress of its agriculture. In his "Political Essay upon the Kingdom of New Spain," that eminent writer thus observes:

"It cannot be doubted that, under improved social institutions, the countries which most abound with mineral productions will be as well if not better cultivated than those in which no such productions are to be found. But the desire natural to man of simplifying the causes of everything has introduced into works on political economy a species of reasoning which is perpetuated because it flatters the mental indolence of the multitude. The depopulation of Spanish America, the state of neglect in which the most fertile lands are found, and the want of manufacturing industry, are attributed to the metallic wealth, to the abundance of gold and silver; as, according to the same logic, all the evils of Spain are attributed to the discovery of America, or the wandering race of the Merinos, or the religious intolerance of the clergy!

"We do not observe that agriculture is more neglected in Peru than in the province of Cumana or Gugana, in which, however, there

[1] See Westgarth, Victoria (1857), p. 118; and Statistical Abstract of the United Kingdom (1858), p. 17. (Since this was written the trade in preserved meats has sprung up, and this will of course enlarge, and already has perceptibly enlarged, the limits of the wool production (1872).)

are no mines worked. In Mexico the best cultivated fields, those which recall to the mind of the traveller the beautiful plains of France, are those which extend from Salamanca towards Silao, Guanaxuato, and the Villa de Leon, and which surround the richest mines of the known world. Wherever metallic seams have been discovered in the most uncultivated parts of the Cordilleras, on the isolated and desert table lands, the working of mines, far from impeding the cultivation of the soil, has been singularly favourable to it. Travelling along the ridge of the Andes, or the mountainous parts of Mexico, we everywhere see the most striking examples of the beneficial influence of the mines on agriculture. Were it not for the establishments formed for the working of the mines, how many places would have remained desert? how many districts uncultivated in the four intendancies of Guanaxuato, Zacatecas, San Luis Potosi, and Durango, between the parallels of 21° and 25°, where the most considerable metallic wealth of New Spain is to be found? If the town is placed on the arid side or the crest of the Cordilleras, the new colonists can only draw from a distance the means of their subsistence and the maintenance of the great number of cattle employed in drawing off the water, and raising and amalgamating the mineral produce. Want soon wakens industry. The soil begins to be cultivated in the various ravines and declivities of the neighbouring mountains wherever the rock is covered with earth. Farms are established in the neighbourhood of the mine. The high price of provisions, from the competition of the purchasers, indemnifies the cultivator for the privations to which he is exposed from the hard life of the mountains. Thus from the hope of gain alone, and the motives of mutual interest, which are the most powerful bonds of society, and without any interference on the part of the Government in colonization, a mine, which at first appeared insulated in the midst of wild and desert mountains, becomes in a short time connected with the lands which have long been under cultivation."[1]

It seems unquestionable that, in the manner described by Humboldt in the above passage, a discovery of the precious metals, by attracting people to a locality otherwise undesirable, or of which the other recommendations were previously unknown, may hasten

[1] Vol. II, pp. 405–408.

the progress of agriculture over the earth, or may lead to the cultivation of districts which, but for such discoveries, might for ever have remained barren; nor will anyone dispute the opinion of so competent a witness that the neglect of agriculture in some of the States of Spanish America was due in a large degree to defects in their social institutions; but, accepting thus far the opinion of Humboldt, I yet venture to question the doctrine (for to this length does the passage I have quoted seem to go) that, speaking with reference to a country *in which occupation has been effected and society established*, the possession of mineral treasures is favourable, or can be otherwise than unfavourable, to the cultivation of the soil. It is one of the best established principles of economic science—the principle on which the whole theory of foreign trade is based—that the possession by a country of any extraordinary advantage in production operates, in proportion to the extent of the advantage, as a premium against all other industrial pursuits. And the grounds of the principle are sufficiently obvious; for the possession of exceptional facilities in production makes it clearly the interest of the country which enjoys them to satisfy its wants for other things, rather through the medium of an exchange with other nations of the article to which such special facilities apply, than by the direct production of commodities in raising which the country has no special advantage. And this being the general principle which regulates foreign exchange, it is one which, from their portability and the universality of the demand for them, applies to the precious metals in an especial degree. I therefore find it impossible to believe that the mineral resources of the Spanish American States did not exercise on these countries an influence prejudicial to the progress of their agriculture, and that these were not among the causes which contributed to that backward state of cultivation which Humboldt notices and describes.

And this conclusion is entirely confirmed by the recent experience of Australia. It is not indeed contended that the discovery of mineral treasures in that country has not given an impulse to cultivation by hastening its general settlement, in the same manner as in the metalliferous districts of America. What I contend for is, that, the country being once occupied and settled, the presence of rich gold-fields must operate unfavourably upon its agriculture, or,

to put the same point differently, that the area of cultivation, under the influence of this cause, will be confined within limits short of those which it would have attained, had the community reached the same stage of advance under different economic conditions; and this, I think, is sufficiently proved by the recent history of Australia,—a history which exhibits the strange, and I believe unprecedented, spectacle of a country, possessing an immense unoccupied territory, and a soil of more than average fertility, importing more than one-half its food.[1]

I am quite aware, indeed, that other causes besides the gold discoveries are responsible for the past history of agriculture in Australia—more particularly a land system contrived with singular ingenuity to cramp and pervert the natural development of the country. But injurious in many respects as may have been, and may still be, the operation of this system,—amongst others, in excluding from the possession of land, and in fact driving from the colony, a class of small proprietors whom on social grounds it would be most desirable to retain,—it can scarcely be maintained that this is at present the principal cause of the failure of Australian agriculture, when we find that of the land which has been sold only a small portion has been brought under actual cultivation.[2] If the quantity offered in the market is insufficient for the agricultural wants of the country, this circumstance would only give an increased value for this purpose to the land which *has* been sold; and yet the greater portion of this remains as yet untilled. It appears to me that this state of things can only be explained by reference to other causes than the restraints of the land system; and what these causes are our former reasonings sufficiently indicate. Obviously they are to be found in the new money *régime* introduced by the gold discoveries. The high rate of wages thus established, being peculiar to the gold countries, places the Australian farmer, in common with other employers of Australian labour, under an exceptional disadvantage in competing in the markets of the world, and compels him, therefore, to confine cultivation to soils in which the superior richness of the natural agent compensates

[1] The *Times* (Melbourne correspondent), February 3, 1858.

[2] Westgarth, Victoria (1857), p. 81; Further Papers etc. (February, 1856), p. 33; *Australian and New Zealand Gazette*, December 11, 1858, p. 568.

the cultivator for the high pecuniary charges with which he has to contend. It is thus that the gold-fields of Australia present a barrier to the development of its agricultural resources—a barrier which, after all the restrictions of the land system are removed, must continue to operate, and which will probably for many years to come render its richest provinces a drain upon the subsistence of over-peopled Europe, instead of what under happier conditions they might become,—liberal contributors towards our already heavily-tasked resources.

Against this reasoning it will perhaps be urged that agriculture has made considerable progress in California, which has already become an exporter of food. This is true, and is a striking proof of the fact to which every traveller in that country has borne testimony, the extraordinary fertility of the Californian soils,—a fertility which enables agriculture to hold its own even against the competition of the gold mines. The fact, however, in no degree invalidates the principle above stated; it only proves that California enjoys over other countries an advantage in raising food, up to a certain point, *as great as she enjoys in obtaining gold.*

The extension of agriculture in Australia has thus, though stimulated for the moment, suffered a real check from the gold discoveries; and the same influence has been felt throughout every branch of industry in that country, gold-mining alone excepted. The premium which has operated against sheep-farming and tillage has operated against all other industrial pursuits. Many districts in the northern portion of New South Wales are represented as favourable to the growth of cotton. "In Moreton Bay," says a colonial writer, "the cotton-tree grows most luxuriantly, and appears more inclined to assume a perennial form than in even the most favoured districts of America. But," he adds, "up to the present time the cost (price) of cultivation has been found too high to make the business of cotton-growing profitable." Tin and antimony, we are told by another authority, abound in many parts of Victoria. Some of the richest tin ores in the Ovens districts have, it seems, been worked to some profit; but although antimony ore "appears to be unlimited in quantity," "the value in the home market (more properly the price of raising it in Australia) will not admit of its being touched as yet by the eager fingers of

commerce."[1] Such has been the effect on the industry of raw produce; and in manufacturing industry the influence of the gold discoveries has been still more complete and sweeping, nothing in the nature of a manufactured product, even of the coarsest kind, being now made in the colony, which can by any possibility be imported.[2]

As a proof of the soundness of our economic knowledge, it is interesting to observe that all this has happened in strict conformity with the established principles of economic science. According to these principles, the exchange of commodities among different nations is regulated, not by the absolute, but by the comparative, cost of the commodities exchanged[3]—not by the circumstance that the commodity imported from a foreign country may be produced with less labour in the country from which it is obtained than in the country which imports it, but by this, that it may be produced by *comparatively* less labour than some *other* commodity, which is also made the subject of exchange. Thus the essence of the gold discoveries, regarded economically, consisted, as has been said, in the reduction in the cost of raising gold which was thereby effected,—a reduction which, not being shared by other countries, involved a change in the comparative costs of Australian and foreign productions. The consequence of this change has been a corresponding change in the character of her foreign trade, brought about, as we have seen, through an action on money wages. Thus Australia, instead of raising her own corn, as under ordinary circumstances she would do, imports the greater portion of it. If we ask why is this? we shall be told that the price of labour is there so high that she cannot afford to compete with foreign countries. This is true; but why is the price of labour so high in Australia? The answer is, because the cost of gold is so low; the rate of money wages, as we have seen, always rising and falling as the facilities of producing

[1] Westgarth, Victoria (1857), pp. 112–113.

[2] "We all wear imported boots and shoes," says the *Times'* correspondent, "and it is cheaper to buy new than to get the old mended."

[3] See chapter on "Foreign Trade," Ricardo's Works; also Mill, Principles of Political Economy, Bk. III, chap. xvii. The reader must observe that by "cost" is meant the *real difficulty* involved in the production of a commodity, *not the amount of money* necessary to remunerate the labour by which this difficulty is overcome. The only commodity of which the *cost* was affected by the gold discoveries was gold; but the *price* of producing everything was altered.

gold increase or diminish.[1] The true explanation, therefore, of the importation of corn into a country possessing abundant resources for agriculture is, that she possesses *comparatively* still greater resources for the production of gold; so that she finds it profitable to obtain her corn rather through the medium of her cheap gold, than by its direct production. And the same explanation applies to every circumstance of her recent trade: *e.g.*, previous to the gold discoveries Australia produced her own cheese and butter; she now largely imports these articles.[2] To what is this change due? The pastures of New South Wales and Victoria offer unusual facilities for dairy-farming, and these facilities have not deteriorated since 1851: the cost of butter now is the same as then;[3] and yet, with these resources at her disposal, Australia draws her chief supplies of butter from Ireland,—an old and densely peopled country. The explanation of this singular commerce is that which has just been given. The natural facilities possessed by Australia for raising butter, superior though they are to those which we in this country possess, are yet not so much superior as her facilities of raising gold are superior to our means of commanding it. It therefore manifestly becomes her interest to turn her capital and labour to gold-mining, rather than to dairy-farming, and to satisfy her requirements for butter through the medium of that commodity in which her advantage is pre-eminent. By following this course she enjoys the same, or nearly the same, advantage over other countries, in obtaining her butter which she enjoys in obtaining her gold, and, strange as it may seem, secures this commodity at less cost—at a smaller

[1] Which shows, by the way, the absurdity of attempting to measure the cost of gold, as some writers have done (see Tooke, History of Prices, Vol. VI, p. 226), by the *pecuniary* outlay necessary to its production. The fact is that *this* (so far as *gold* is the money employed) scarcely ever varies; the gold price of producing gold representing merely the ratio of the outlay to the return, or the rate of profit, so that if *price* be taken as the criterion of *cost*, the cost of gold would never vary unless so far as the rate of profit varies.

[2] The sum paid by the colony of Victoria alone to Great Britain on this account in the last year reached the large amount of £800,000.—*Australian and New Zealand Gazette.*

[3] The reader will bear in mind the distinction between the *cost* and the *price* of production.

sacrifice of ease and leisure—than its production exacts from the Irish farmer who raises it.[1]

The importance of thus conceiving the commercial effects of the gold discoveries is, that it enables us at once to perceive the precise nature and bounds of the advantage which Australia and California reap from their gold-fields. By means of them they are enabled to obtain their gold at rather less than one-half the sacrifice formerly necessary; and, therefore, unless so far as the purchasing power of the metal has since declined, they can, through the medium of it, obtain all their other commodities on terms proportionally easier. We have seen that, as regards domestic productions, these have all risen in price in the same proportion as gold has fallen in cost, whence it follows that, so far as this portion of their consumption is concerned, the gold countries derive no advantage from their cheap gold. They obtain in return for a given sacrifice, twice as much gold as formerly, but they also pay twice as much for every domestic production. With their foreign trade, however, it is otherwise. Prices throughout the world have not risen in the same degree as the cost of gold has been reduced; and consequently upon this portion of their dealings Australia and California are gainers,—gainers directly in proportion to the reduced cost of their gold, modified by the rise, so far as it has taken place, in foreign prices. A given exertion of labour enables them to command, not only more gold, but more of every other thing which foreign countries can supply. It is thus exclusively in the foreign branch of their trade that the advantage of their cheap gold resides: it is only *in so far as they part with their money* that they derive from it any benefit; and yet, so completely in Political Economy is the ostensible at variance with the real, and so inveterate, consequently, are the prejudices of mere experience, that the cry of 'Protection' has been heard even in Victoria. It might, perhaps, shake the Victorian protectionist's faith in his doctrine, if he would reflect that his most effectual protection against the foreigner would be the exhaustion of his own gold-fields.

Such have been the results of the discovery of gold on the industry, trade, and general interests of Australia. Let us now

[1] A possibility which was foreseen and pointed out by Ricardo.

observe the light which these conclusions throw on the more general questions connected with this occurrence. And, in the first place, as to the extent of the prospective depreciation. We have seen that, in the disturbance in the value of gold, or, what comes to the same thing, in the gold prices of commodities, which followed the discoveries, there was a point about which the fluctuations moved, and beyond which the advance or decline did not permanently pass. Prices were in the first instance forced upwards through an increased demand for commodities; the increase of demand led to an increase of supply, and this to a reaction in prices towards their former level. In the case of imported commodities this reaction was carried to the full extent of the previous rise, but in domestic products the decline was arrested at a higher point, the further fall being prevented by the check given to production through the high rate of money wages. The natural level of Australian prices, and therefore the value of gold in Australia, was thus determined by the rate of wages measured in gold, and this, as we have seen, was regulated by average earnings on the gold-fields. The rate of gold earnings, or, as this is in technical language expressed, "the cost of gold," is therefore the circumstance which, in the final resort, regulates the value of the metal, and sets the limit beyond which depreciation cannot permanently pass. Now we have seen that in Australia gold wages have, in consequence of the gold discoveries, risen in rather more than a twofold proportion; and since, whether gold is raised from mines or imported in exchange for commodities, gold wages, or the return to labour in gold, will always represent the cost of the metal,[1] it follows that the cost of gold has been reduced in Australia by the gold discoveries to the extent of about fifty per cent. Fifty per cent., therefore,—equivalent to a twofold advance in prices,—gives the maximum beyond which (on the supposition that no more productive mines are discovered) the general value of gold cannot permanently fall. Further, it has appeared that, although a reduction in the cost of gold tends to cause a corresponding fall in its value, the actual realization of this result depends upon the possibility of so enlarging the circulation as to render this fall possible. Thus we have seen that the price of gold in Australia fell, pending the enlargement of the

[1] See on this point Senior's Essay "On the Cost of Obtaining Money."

currency, by the importation of sovereigns from England, which is, in other words, to say that the value of the currency was, during this period, maintained above its natural cost level. This severance of value from cost was indeed in Australia of brief continuance, because, the local circulation being small, it required but a short time to double, quadruple, or otherwise augment it as the occasion might render necessary. But throughout the world at large, the process of augmentation, owing to the vast dimensions of its currencies, is one necessarily of slow accomplishment, and, pending its fulfilment, the value of gold is of necessity maintained above the level prescribed by its cost. It is this which at present sustains the value of gold in the general markets of commerce, notwithstanding the cheapening of its production effected by the gold discoveries. Whether that value will ever be lowered in the same proportion, whether gold will ever fall throughout the world at large as it has fallen in Australia and California, depends upon whether the conditions which have lowered its value in them can be generally satisfied—that is to say, depends upon *whether the increased supply which such a fall would render necessary can be obtained at the present cost.* Into the further discussion of this question I do not now enter,[1] the object of this paper being to point out the principal issues which the general problem involves, not to attempt their solution. But from the facts which have been stated, we are justified in concluding that, so long as the present want of conformity between the cost and the value of gold continues, so long a constant premium will exist on its production, and so long our supply of gold will continue to increase.

But, secondly, let us consider what light our conclusions respecting the gold countries throw upon a question which has been much discussed,—I mean the effect of this movement on the real wealth, the substantial well-being, of the world. That the gold discoveries have added to the real wealth of the inhabitants of Australia and California is indeed exceedingly apparent; but what has been their effect upon the interests of other nations? Has the cheapness of Australian or Californian gold added equally to the effectiveness of *their* industry, and extended *their* command over the comforts and

[1] The reader will find some remarks on this aspect of the question in the Fourth Essay, p. 109 et seq.

enjoyments of life? The answer of some writers to this question has been very strongly in the affirmative; but, with the light derived from the previous discussion, we may perhaps see grounds for arriving at a different conclusion. We have seen that the gain of Australia and California from their gold-fields is confined to that portion of their trade which they carry on with foreign countries; that it is only *in so far as they part with their gold* that they derive from it any benefit. Now the world, as a whole, has no *foreign* trade; it has no means of exchanging for the productions of other planets the gold which it produces; from which it seems to follow that, regarded as a single community, the world is incapable of realizing those conditions on which the benefit to be derived from cheap money depends. The conclusion to which this consideration points is, that the operation of the new good will be confined to causing a new distribution of real wealth in the world without affecting its aggregate amount; and that, consequently, the gain of the gold countries must be reaped at the expense of other nations.

This conclusion is no doubt much at variance with prevailing notions, and with the deep-seated prejudices of the "mercantile system;" and will not, therefore, be easily admitted. Nevertheless, if we reflect on the character of the commerce which has arisen out of these discoveries, we may see reason for accepting its truth. The trade between the gold countries and the rest of the world is one in which consumable commodities on one side are exchanged against money, or the materials of money, on the other. A large portion of the industry of the world is, through the medium of this trade, employed in ministering to the real wants—the appetites, tastes, and other human needs—of Australia and California. Let us inquire what is the want to which these countries minister in return. It will be said to the want of more gold—the want of an enlarged circulating medium. True; but what is the foundation of this want? and in what way does its satisfaction promote human happiness? Human industry is not rendered more efficient, nor human happiness more full, by the use of two coins instead of one. Why, therefore, may not the business of production and exchange be carried on upon the former terms? I apprehend that the correct answer to this question is that gold—the great medium of exchange and universal equivalent—having been cheapened in Australia and

California, these countries of necessity possess an exceptional advantage in their commercial dealings with the rest of the world, until the gold prices of commodities in other countries are proportionally raised, and that to effect this object—to raise the prices of their productions in proportion to the diminished cost of gold—the quantity of their gold circulation must be increased. The nations of the world have thus by the gold discoveries been placed under the necessity of enlarging their currencies; and this can only be accomplished by parting with their productions in exchange for the required supply. Hence the character of the traffic which we are now witnessing,—a traffic in which consumable goods are exchanged for money, and real for nominal wealth. It is therefore no natural want to which this one-sided trade is subservient, no desire, the satisfaction of which adds an iota to human enjoyment: it is merely an artificial requirement, a disagreeable and unprofitable necessity, originating in the gold discoveries, and satisfied at the expense of commercial nations.

I am aware indeed that there are writers who regard gold not simply as a convenient medium for the exchange of commodities independently produced, but as in itself, a source of productive energy, as "the motive power of all industry and commerce,"[1] and who accordingly consider "an addition to the quantity of money to be the same thing as an addition to the fixed capital of a country"[2]—as equivalent in its effects upon industry to "improved harbours, roads, and manufactories."[3] According to such views the influence of the gold discoveries must be universally beneficial,—beneficial, not merely in relation to the countries which produce the cheap money, but in a still more eminent degree in relation to those which permanently retain it. But in spite of the plausibilities of the mercantile theory, common sense, no less than economic science, will continue to ask how the world is enriched by parting with its real wealth?—how the well-being of Europe and Asia is promoted by parting with the materials of well-being, receiving in return not materials of well-being, not augmented supplies of wool and tallow, corn and provisions, not those commodities which new countries

[1] Seyd, California and its Resources, p. 5.
[2] Tooke, History of Prices, Vol. VI, p. 46.
[3] Ibid.

are specially fitted to produce, and of which old countries are pressingly in need, but what?—increased supplies of the precious metals, a more cumbrous medium of exchange!

So singular and abnormal indeed has been the course of industrial affairs hitherto in the gold countries,—so strange has been the spectacle of a country abounding in resources which she dares not touch, and drawing from other countries commodities which she is specially fitted to produce,—that it has not failed to attract the attention of thoughtful observers, and to suggest the pertinent inquiry, how long is this state of things to continue? Is the development of the great and varied resources of Australia and California to be perpetually subordinated, if not indefinitely postponed, to the single pursuit of gold-mining? Are the other nations of the world destined to continue for ever labouring in the service of the gold countries, for no other than the barren reward of an addition to their circulation? These questions have been frequently put, but I am not aware that they have as yet been satisfactorily answered. The writers who have started them have indeed, correctly enough, connected the present condition of Australian industry with the high price of labour in that country, but they do not seem to perceive very clearly upon what the maintenance of this high price of labour depends. It is commonly spoken of as resulting from the scarcity of workmen, and the inference appears to be made that it will gradually disappear as population increases; but this mode of reasoning arises from confounding the temporary with the permanent causes which regulate wages. India is a less densely peopled country than Great Britain, but the rate of wages in India is many times less than the rate of wages in Great Britain. The fact is, the average rate of money wages in a country is regulated, not by the movements of population, but by the causes which determine for it the cost of its money.[1] In the gold countries, as we have seen, these causes are the productiveness of industry in raising gold: and, therefore, so long as the present productiveness of the gold-fields is maintained, the rate of money wages in Australia and California cannot fall permanently below its present level. How long this rate of productiveness is likely to last, is a question the discussion of which would carry me entirely beyond the necessary limits of this paper; but on

[1] See Senior's Essay "On the Cost of Obtaining Money."

the supposition of its being maintained, we can have no difficulty in discovering the condition on which the industrial development of the gold countries depends.

That condition is briefly this—the prices throughout the world should rise in proportion as the cost of gold in the gold countries has fallen. So long as the present pecuniary rates of the gold countries are *exceptional*, so long Australian and Californian producers of other commodities than gold will labour under a disadvantage in their competition with gold miners; and so long the non-monetary exports of those countries will be limited to that small class of commodities, in which their advantage over other countries is as great as it is in their command of gold. But with the advance of gold-prices in foreign markets, this class of commodities will be extended. With the fall in the value of money, it will become less profitable to raise and export money; with the rise in the price of other things, it will become more profitable to raise and export them; and a larger share of the whole labour and capital of the country will consequently be turned to the latter purposes. We may illustrate the principle by an actual case. For several years subsequent to the gold discoveries timber was largely imported into Australia from the Baltic; and I perceive that it is still upon the list of her imports. But during all this time there have been within a few miles of the localities where this Baltic timber has been used, extensive forests of gum-trees, inviting the axe of the pioneer, capable of affording timber perfectly suited to the purposes for which timber in the mining districts is principally required. Indeed this gum-tree timber has been freely employed where it could be obtained close to the spot where it was wanted, but rather than go fifty miles to cut it, the Australian workman prefers to import it from the other side of the globe. The explanation of this conduct is the low comparative cost of Australian gold. A day's labour employed in crushing quartz or in digging auriferous clay, enables the Australian to obtain more timber than the same labour employed in felling trees. Every rise in prices, however, in foreign markets, will diminish the cost of gold to the foreigner, and thus lessen the comparative advantage of gold-digging: the domestic production will gradually gain upon the foreign trade, and the area over which timber-cutting is profitable will be extended. This process has already taken place to some

extent, partly through the rise in the cost of gold, with the exhaustion of some of the richer deposits, partly through the advance in the price of timber in foreign markets; and it will doubtless continue. It is obvious that the same principle will operate equally in the case of every commodity which the gold countries are capable of producing. With every rise in gold prices throughout the world, gold will become a less profitable remittance; other commodities will become more profitable; and this will continue, until either prices throughout the world rise in proportion to the reduction in the cost of gold—that is to say, to double their present amount—or until through the exhaustion of the present gold-fields, gold can no longer be produced at its present cost.

It will not be till one or other of these contingencies happens, that the industrial development of the gold countries can be fully accomplished, or that the world can derive from their commerce that contribution to its real well-being and happiness, which their great and varied resources render them so competent to yield.

## POSTSCRIPT[1]

The history of the Australian trade since this essay was written furnishes so striking an illustration of the views put forward in this paragraph, that perhaps I may be pardoned for referring to it. During the whole of this time, the double process referred to—the gradual exhaustion of the richer gold-fields, and the simultaneous rise in prices throughout the world external to the gold countries—has been in operation; and every step in the movement has witnessed some new development of Australian industry. Thus, while between 1856[2] and 1870 the production of gold in Victoria had fallen from 11,943,000*l.* to 6,119,000*l.*, or to a little more than one-half of its former amount, the non-monetary exports of the colony had increased from 3,546,000*l.* in 1856 to 6,351,000*l.* in 1870; the increase taking place chiefly in wool, tallow, and preserved meats. But the effect of the double process of failing gold mines and rising prices in foreign countries has been felt, up to the present, far

[1] Cairnes, Essays in Political Economy (1873), pp. 50–52.

[2] I commence with 1856, this being the first year of the publication of "The Statistical Abstract for the Colonies," from the last number of which (1872) the figures in the text are taken.

less in increasing the number and the amount of exports than in curtailing those of imports, and in developing domestic production. The foreign trade of Victoria presents the singular and almost unique spectacle of a steady decline in its rapid growth of population and general wealth. I have no returns of the population of that colony for 1856 (the date at which the commercial statistics begin), but it was probably between 300,000 and 400,000; in 1861, it was 541,000, in 1870, 729,000; in other words the population must have nearly doubled itself in these sixteen years; the general prosperity of the country during the same time being almost unexampled. But the noteworthy circumstance is, that while the country was thus prospering, its external trade was undergoing constant contraction, falling from a total of 15,489,000*l.* in 1856, to 12,470,000*l.* in 1870. The fact, I may mention in passing, shows how little the foreign trade of a country, as measured by its exports and imports, furnishes a correct criterion of its industrial progress or growth in real wealth. The explanation of the phenomenon is that which I have given in the foregoing essay: with every decline in the productiveness of the mines, and with every advance in foreign prices, the gain on importation decreased and home production became relatively more profitable. The result has been that, from being a large importer of breadstuffs, butter, beer, boots and shoes, provisions, spirits, &c., Victoria has either discontinued altogether or greatly curtailed her importation of all these commodities, which she now produces from her own internal resources. Is this course of development for the advantage of Victoria? Plainly, I think, if we have regard to her general interests, social and political as well as pecuniary, we must answer in the affirmative; though, as economists, we must also recognize that, looking at the question from a purely material standpoint, this affirmation cannot be made good; since it is certainly a fact that the diminishing returns of her gold-mines have deprived her of that command of foreign markets which she formerly possessed; while the resort to her own fields of production in lieu of foreign markets, being as it is a *dernier ressort*, cannot but indicate a diminishing productiveness of her general industry. But whatever may be the interests of Victoria herself in this matter, as regards the interests of other countries the case is clear. Had her gold-mines continued as rich

and productive as they were during the first few years following the discoveries, and had gold prices through the world remained at the then level, Victoria would have continued to export gold in quantities ever increasing as her population and capital increased, for which the world would have had to pay in the commodities of real wealth. In return for the products of their labour in the form of the conveniences and comforts of life, foreign countries would have gained an addition to their circulation. Instead of this, their industry is now being gradually relieved from this task of adding to their currencies, while the returns of their trade, no longer consisting of barren metal, take the form of increasing supplies of wool, tallow, and meat.

# IV

# TAUSSIG: WAGES AND PRICES IN RELATION TO INTERNATIONAL TRADE[1]

THE main thesis of the present paper is that in considering the working of international trade, attention should be paid more to the range of money incomes, and less to the range of prices than is usually the case when economists take up this set of topics; and that in gauging the advantages which a country secures from international trade, we should look primarily to the range and the variations of money incomes.

It is usually set forth that the country where prices are highest gains most from international trade, and the country where prices are lowest gains least. The range of prices obviously enough is not in itself of consequence. High prices simply mean the use of more counters in exchange. But in buying imported commodities those whose domestic transactions are carried on with many counters have an advantage. Foreign goods are not so high in price, and are procured more easily. Conversely, countries with low prices are ill off as regards imported goods, which are bought on hard terms by people whose scale of money prices is low.

This statement of the case would be open to no exception if the words "money incomes" were used throughout when stating the situation of the people of a given country. It is high money incomes that are of consequence in international trade, not high prices. In fact, a country may have, not high prices, but low prices, and still be in an advantageous position as regards international trade. High money incomes do not necessarily or commonly mean high prices. It is by a consideration of the relation between money incomes and prices, of the possibilities of divergence or parallelism between them, that some contribution may perhaps be made toward better understanding the phenomena.

[1] F. W. Taussig (1859– ), in *Quarterly Journal of Economics*, August, 1906.

Let us consider, for this purpose, a country in which wages and other money incomes are high. The United States, for example, has a high range of money incomes. It is commonly thought to have also high prices. Let us compare its situation with that of the European countries with which it trades, and ascertain wherein it gains, and how far its gains are connected with the prices of goods and the money rates of wages and other incomes. For the sake of simplicity, in speaking of the United States or similar countries, I shall use indifferently the terms "money wages" and "money incomes," leaving it to be understood that not wages only, but other money incomes as well—rents, profits, interest, the earnings of independent farmers or artisans—tend to be correspondingly high.

Begin by recalling some of the familiar principles of international trade. Under a state of freedom, goods that are imported and exported will sell at approximately the same prices the world over. There will of course be differences from cost of transportation. Imported goods will sell at prices higher than their prices in the exporting countries by the amount of cost of carriage. Sometimes a commodity that newly enters into foreign trade—one that a shrewd merchant discovers to be cheap in one country and salable in another—will sell in the importing country at a large advance; and doubtless the action of competition in leveling profits and reducing such differences of prices to the "normal" point is not so quick and thorough as the economists are disposed to believe. But on the whole we may reason on the assumption that under conditions of freedom those commodities which enter into international trade have a common price the world over. The extraordinary cheapening of transportation during the last half-century, the easy transmission of news, the perfected organization of markets and exchanges, contribute to make this assumption a safe one for all the great staples. Customs duties, of course, are an important cause of differences in price; of these something more will be said presently. But the fundamental principles can be best elucidated by tracing their operation under free trade.

Every country will export those things which are cheap in its borders—whose prices are so low that they can be shipped to foreign countries and still sold at the advance needed to cover cost

of carriage. And those things will usually be cheap which are produced with a comparatively small amount of labor—those in which the effectiveness of labor is great. A country with high money wages, like the United States, can yet put goods on the market (whether the domestic market or the foreign) at low prices, if its labor is productive. Such is the familiar situation with our great agricultural staples. The money incomes of those who grow wheat in the United States, whether the earnings of the independent farmers or the wages of the laborers whom they hire, are larger than the incomes and wages of wheat-growers in other countries. But the wheat can none the less be sold at a low price in the United States, and can be exported from the United States, because our labor is effective in producing it. Why the labor is effective is no part of the present inquiry. One cause clearly is the abundance of fertile land; a cause no less important is the wide-spread intelligent use of good agricultural machines. These very agricultural machines—to mention another commodity—are largely exported from the United States, though the wages of the workmen who fashion them are high; because the methods of making them have been greatly perfected. To specify still another case, the earnings of the negroes who grow cotton in our Southern States, low as they may be when measured by ordinary American standards, are higher than those of the fellaheen in Egypt or the ryot in India. Yet American cotton can be sold as cheaply as that of Egypt or India. The soil and climate make the Southern negro's labor effective, and doubtless in some degree a better organization and direction of his labor contribute also to make it so.

All this is but a restatement of the principle that a country will export those things in which it has a comparative advantage. The exposition of that principle, as it is usually found in the books on economics, would be simpler and more telling if it were made clear (the common form of statement fails to make it so) that the things in which a country has a "comparative advantage" are those which are likely to be low in price. International trade, like all trade, though fundamentally a matter of barter, is proximately a matter of price. A country sells abroad those things which it can produce at low prices at home. Ordinarily, those things are produced at low prices at home in which the country's labor is effective.

Proceed now to the next stage: what will be the range of prices for those commodities which do not enter into the sphere of international trade—those which are not exported or imported, but are bought and sold solely within the country? The quantity of such commodities is very great, and in all countries probably much exceeds that of commodities having a world range of prices. Many things are too bulky to be transported over any considerable distance—as stone, bricks, timber. Many are perishable, as milk, butter, eggs, fruits, vegetables. No doubt modern improvements in the transportation of bulky goods and in the preservation of those that are perishable tend to enlarge the sphere of foreign trade. But such things are still sold mainly in their own region and at the prices of their own region. House-room and shelter, a most important article of consumption and purchase, cannot be transported at all, and so may vary widely in price in different countries. Some of the articles used in building houses—boards and laths, doors and windows, locks and hinges—may indeed be sent to distant regions. But even these are much affected by the customs and fashions of the several countries, and are usually made and sold on the spot or near it. A multitude of articles which might conceivably be brought from foreign countries are in fact made chiefly at home, because of the persistent sway of habit and tradition. Such are clothing and boots, tools and machines, wagons and harness. The reader's imagination will easily enlarge the list. The prices of all these things are determined under domestic conditions. They do not enter into international trade, and have no world level of prices.

Most persons would say that the prices of such commodities—it will be convenient to speak of them as "domestic commodities"—will be high in countries where money incomes are high and low in those where money incomes are low. But this by no means follows. The range of domestic prices in a country, as compared with the range of prices of the same things in other countries, depends on the effectiveness of labor in producing the domestic commodities.

Looking at the United States as our example, we find some things higher in price than in European countries, some things lower. We know, of course, that the exported articles—wheat, corn, flour, meats, cotton, iron, copper—are as cheap, even somewhat cheaper. But how about domestic commodities? Some are dearer, some are

cheaper. Comparison is often difficult, because the qualities of things vary; but every-day observation suffices to establish significant differences. Wheat and flour are cheaper, yet bread from the bake-shop is dearer. Most fruits are as cheap or cheaper in the United States, especially when they have been transported some distance. In the immediate region of fruit-growing, fruits are often cheaper in Europe. Eggs are dearer in the United States. Milk and butter are usually dearer also. Bituminous coal is, in most parts of the United States, as cheap or cheaper. Anthracite coal is dear; but comparison with a corresponding article in European countries is not easy. The simpler kinds of cotton clothing are cheaper. Boots and shoes are as cheap, probably cheaper. Woolen clothing is dearer. Here the effect of the duties on wool must be reckoned with; but ready-made woolen clothing is not so high in price as that made to order. Household furniture is cheaper; hardware and kitchen utensils are probably also cheaper when due allowance is made for quality. All things that involve personal service—cab fares, hotel charges, servants' wages—are markedly higher in price.

An interesting case, and one that serves to bring out both the difficulties of comparison and the working of the underlying forces, is that of house-room. The amount that is actually paid out for house rent is, scale for scale in the social stratification, higher in the United States. But in most cases more is got for the money. The space is ampler, the lighting better, the appurtenances more convenient. Persons of the well-to-do class who spend a season in Europe will commonly pay less for house rent than they would expect to pay in the United States, but they are commonly content with less agreeable and convenient accommodations. A significant difference is observable between houses made chiefly of wood and those built of brick and stone. Masonry work is dearer in the United States; wood work is as cheap or cheaper. Houses of brick or stone cost more to build than in Europe; if built of wood, they cost less. The explanation is that machinery can be applied to manipulating wood more easily than to brick or stone. Given the same efficiency of labor, the same output per day per man, and it is evident that if you pay higher wages you must charge higher prices. Such in the main is the case with brick and masonry work in the United States

as compared with Europe. Brickmaking and bricklaying, stone-cutting and masonry, are done chiefly by manual and artisan labor, even though in brickmaking and in stone-cutting there is probably in the United States somewhat greater use of power and machinery than in Europe. Wages being higher, and the output of labor no greater, prices must be higher. Wood working, on the other hand, from the rough-sawn timber to the last molding on the door or windows, is done in the United States with a great use of machinery; and, what is most significant, with a *greater* use of machinery and labor-saving devices than in any other country. Labor is thus made more effective, and, though more highly paid, its product is not necessarily sold at a higher price. Given a sufficient advantage, and the product will be even cheaper. If the work on your wooden house is all done on the spot by carpenters, it will be dearer in the United States; but, if the carpenters simply put together in short order the machine-made pieces from the saw-mill and factory, it will be cheaper in the United States. The last-named is the way in which the great majority of houses are built in the United States for persons of small means or moderate means; and such houses are as cheap as in Europe or cheaper, and the house rent for them, quality and convenience considered, is as low or lower.

This explanation of the range of house rents applies, strictly speaking, only to the selling price, or capital value, of the building and improvements. The rental is compounded of a return on this investment and of premium for the advantage of the site, namely, economic rent proper. The first of these items, interest on capital, is affected by causes very different from those that govern prices and wages. The rate of interest may be high where money wages are low, and low where wages are high. In fact, however, the variations in the rate of interest among civilized countries are not so great that we have here an important qualification of our conclusions as to the causes acting on the price of house-room. Differences in the cost of building will affect this part of the rental much more than differences in the rate of interest. As to economic rent, the case is simpler: this return may be expected to vary *pari passu* with money incomes. To apply the familiar theorem, rent is the result of price, and not among the causes of price. Where the general range of wages and of incomes is high, the amount that

will be paid for an advantageous or indispensable site will be correspondingly high. Hence, looking at all the elements of the case, we are prepared to learn that the rents of tenements in New York City are high. The investment in them is heavy. Their brick work is done by highly paid artisans, with little use of labor-saving machinery. A crowded population, with a high range of money incomes, causes economic rent to rise to portentous heights. In smaller cities and in the suburbs of most larger cities, on the other hand, modest wooden houses for artisans are cheap. Economic rent enters little, and the cost of building is comparatively low.

Similar reasoning can be applied to the rental of business structures. The modern steel-frame office building in the United States probably costs less per unit of available space than similar buildings in Europe. The brick or stone business structure of the older type probably costs more. The total rental is a compound of interest and economic rent, the latter exercising a preponderant influence on those sites where there is demand for the enormous amount of floor space provided in the huge office building.

Ordinary pick-and-shovel work costs more in the United States: sewer-digging, street-making, the grading of a railway. Wages are higher, and, man for man, no more is accomplished or little more. It is, indeed, often said that the efficiency of common labor is greater in the countries of higher wages: the laborer, getting more food, can do more work. There is doubtless truth in the assertion, when comparison is made between the wages and the output of laborers in starvation countries, like British India, and the wages and output of countries where life is less cheap. But I have always been doubtful as to the sweeping applicability of this sort of reasoning. The rice-fed Chinaman or Japanese seems to do as much in a day as the beefy Englishman; the frugal Italian as much as the extravagant Irishman. On the whole we may expect the product of ordinary manual labor to cost more (in money) in a country like the United States. No doubt much work that seems to be solely of this kind is affected by the degree and extent to which machinery and labor-saving devices are used. The familiar apparatus of sewer-construction in the United States is vastly superior to anything of the sort in common use on the continent of Europe. The same is true of the railway contractor's outfit. So far as the American

engineer and contractor can secure by such means greater results, the high money wages do not entail high expenses and high prices.

Railway freight rates are on the whole lower in the United States. That they should be lower or as low, notwithstanding the higher wages of all railway employees, is clear proof that the efficiency of railway operation in the United States is greater than in Europe. The lower rates for freight and the greater extension of facilities for long distance traffic go far, again, to explain the comparatively low prices of many commodities—fruits, coal, even bread-stuffs and meats. One great cause of the general effectiveness of labor in the United States and of the wide diffusion of material prosperity has been the extraordinary development of the geographical division of labor; and for this the widely ramifying railway net, and the extent and cheapness of railway service, have been indispensable. Street railway fares, to instance another curious case, are as low or lower in the United States. Even at the lower fares, they commonly yield large profits. The efficiency of labor must be very much greater.

Retail prices—that is, the *spread* between wholesale and retail prices—present a mixed case. If the operations of the retail dealers in the United States are conducted in the same way as in Europe, the advance of retail prices over wholesale must be greater. Otherwise the earnings of the retail dealer will not be on the same liberal scale as the wages and earnings of the rest of the community. But if the retail dealer's work is done, not in the same way as in Europe, but in a more effective way, he can reap sufficiently high gains with no larger margin of profit. Both situations seem to exist. The large department store in the United States is probably conducted with greater efficiency and with no greater advance of retail over wholesale prices than in European countries; though the recent rapid growth of this sort of shop-keeping in Europe makes the difference less than it would have been ten or twenty years ago. On the other hand, a great deal of retailing—probably the greater part of the sum total of this sort of work—is still done on a small or modest scale. The grocer, butcher, apothecary, must usually be near his customer. This means that the operations are scattered and are conducted on no large scale. In such case the advance of retail prices over wholesale—the retailer's "profit"—is greater in the United States. Hence it may happen that an article whose

wholesale price is lower in the United States and which is exported from the United States to Europe, may yet be dearer here to the retail purchaser. Expense of transporting the great staples across the ocean has been reduced to a very narrow margin, and the slight difference caused by this in wholesale prices may be more than balanced by the greater advance of retailer's prices in the country of higher money incomes. Butcher's meat may cost the consumer more in the United States, even though dressed beef be sent by the shipload across the Atlantic.

Persons of the well-to-do classes find the expenses of living higher in the United States than in Europe; and to their mind there is no question that prices here are higher, and higher in proportion to the higher range of money incomes. The explanation is partly that much of their expenditure is for personal services; partly that another large fraction of it is for those articles, imported and other, which are really high in price; partly that a higher scale of comfort and luxury has been established by prevalent prosperity. The items that are most conspicuously dear in the United States and cheap in Europe are the various kinds of service—domestics, cabs, hotels. Where the range of wages is high, these things are expensive. Wages for domestic service are particularly high in the United States, because the spirit of democracy makes the occupation distasteful. Again, the expenditure of prosperous Americans at home is directed in large degree to the less hackneyed and less common articles—to the hand-made things rather than the machine-made things. The hand-made things are dear in a country where money wages are high. Clothing made to order is dear, though ready-made clothing is by no means dear in the same degree. Factory-made furniture is cheap; custom-made furniture is extremely dear. Cab fares are high; street railway fares are low. Imported articles of course would be no higher in price than abroad, or very little higher, were they admitted duty free. Being subjected to heavy duties, they also are expensive. It is probable that the most effective part of our protective system is now directed against the articles made in larger proportion by hand with the tool, and in less proportion by power with machinery. These are the things most likely to be imported into the United States, and most enhanced in price by the protective duties. These are often, though by no

means always, the commodities bought by the well-to-do; and thus there is ground for saying that the social effects of the protective system here are less objectionable than in countries that levy duties on the staples of life.

In sum, it can be said that the United States, though a country of high wages, is not a country of high prices for the great mass of the community. It is so in large degree for the rich and well-to-do. True, the artisans and workingmen and farmers have a high scale of living, for they have plenty to spend; but the domestic articles they buy are on the whole not dear. They are not dear, because the effectiveness of labor in making them is not less than that of labor in making the exported articles. Imported articles which are duty free, like tea and coffee, are as cheap (barring cost of carriage) as in foreign countries; and here also the American gets the full benefit of his higher money wages. So far as the protected articles are concerned, his advantage is simply thrown away.

What has been said of the United States, the typical country of high money wages, applies *mutatis mutandis* to countries of low wages. In a country of low money wages domestic prices may or may not be low. Such a country is usually, though not necessarily, one with an all-around inefficiency of labor. Those articles as to which its labor is least inefficient, and which are transportable or for other reasons salable abroad, will be exported. Though they may be turned out by ineffective labor, they can yet be sold at the international price because the money expenses of production are low. Domestic commodities—namely, such as are not exported or imported—will be comparatively low or high in price, according as labor in producing them is effective or ineffective. The wages of servants and other like expenses of the well-to-do are sure to be low.

Our next inquiry is, what causes high money wages? The answer in brief is that those countries have high money wages whose labor is effective in producing *exported* commodities, and whose exported commodities command a good price in the world's markets. The general range of money incomes depends fundamentally on the conditions of international trade, and on those conditions only. The range of domestic prices then follows: it is high so far as the

output of labor in domestic commodities is small, low so far as the output of labor in domestic commodities is great.

The situation is simplest in the case—difficult to find in the real world, but instructive for illustration of the principle—of a country having a monopoly of a given article of export or set of exported articles. By monopoly, of course, is here meant not that the producers within the country fail to compete among themselves, but that the producers of no other country compete with them. The price of such exported articles will depend, in the manner with which the reader may be supposed familiar, on the equation of international demand. The more the consumers in other countries care for them, the higher will their prices be pushed. The less the labor with which these articles are produced at home, the higher will be the money wages resulting from these high prices. The higher money wages in the exporting industries will set the standard for money wages in the country at large; but the general high wages may or may not be accompanied, as already explained, by high domestic prices.

Where a country exports in competition with other countries—the well-nigh universal case—the same forces are at work. The prices at which the exports are sold depend on the world demand for the commodity. In that world demand, or, to speak more carefully, interplay of demand, the extent to which the consumers in the several countries care for the articles imported into them determines which countries shall sell their exports on advantageous terms. Those countries whose exports are in most urgent demand will have the greatest possibility of high money incomes. Whether that possibility will be realized—whether they will have high incomes, in fact—depends on the labor cost of their exports. The wheat which is exported by the United States and by Russia sells at the same price; but that price means large money returns in the country of machinery, efficient labor, and cheap internal transportation, and low money returns in the country which lacks these advantages. In the language of Mill,[1] "What a country's imports cost to her is a function of two variables: the quantity of her own commodities which she gives for them, and the cost of those commodities.

[1] Mill, Principles, Bk. III, chap. xviii, § 9.

Of these, the last alone depends on the efficiency of her labor: the first depends on the law of international values; that is, on the intensity and extensibility of the foreign demand for her commodities, compared with her demand for foreign commodities."

Where a country produces and exports specie—gold, let us say—the case may seem to be different; yet a little consideration will show that the forces at work are the same as in countries producing other articles of export. A gold mining country may or may not have a high level of domestic prices. Gold is indeed a commodity which always is readily taken by foreign countries. The demand for it is sometimes said to be limitless; more carefully stated, it is constant. All the gold produced will be taken, and will be distributed over the world among virtually all the trading countries, at rates of payment which will be very slightly modified by any annual or decennial increase in the quantity sent out from the mining countries. If now the gold is produced, and produced freely, with little labor—if it is cheap in that essential sense—the mining country will have high money incomes. Such was the case in California and Australia during the first days of the gold discoveries. Prices of all things were high in those days; for in commodities at large labor was by no means productive. In a country where gold, though mined, is not produced under advantageous conditions—where the mines are poor or mining methods at a low stage—money wages will not be high; and the gold will not be mined at all unless it yields as large money incomes as other possible articles of export.

In the case of a gold mining country we may note a qualification which indeed should be borne in mind for all countries and for all commodities: it is to be assumed that the exporting industry does not partake of the character of a monopoly *within* the country. In the placer mining days of California and Australia any laborer with a pan and a stock of provisions could join in the hunt for gold, and high money wages were a matter of course. When more elaborate mining set in, high wages still continued, so long as the mining capitalists competed among each other for laborers. But if some of the mines were highly productive and others much less so, the productivity of labor at the margin of mining would fix the range of money wages. There might be advantageous production and heavy

exportation of specie, without a high range of wages, if the exports came predominantly from the better mines. And if the mines were all owned and operated by one person or organization, the greatest richness and productiveness need not result in high wages. All the treasures of Potosi, however little labor they cost the wretched native, never could bring him high returns, even in money. And similarly, if all the exporting industries of the United States were under such control as are the production and refining of petroleum, then the general range of money wages, however great the productiveness of labor and however strong the foreign demand for the articles, would not necessarily be high, and certainly would be less high than under conditions of unrestrained competition.[1]

There is an important sense in which it is true that a country whose position in international trade is advantageous has not only high money incomes, but high prices as well. In the preceding pages, domestic prices have been said to be high or low, if the prices of given commodities are higher or lower than the prices of the same commodities in other countries. Thus the price of a wagon may be spoken of as high or low in the United States if it is higher or lower than the price of the same sort of wagon in Europe. Similarly, railway and street railway fares and house rents may be

[1] The foundation for all such discussion as this was laid by Ricardo, whose genius nowhere shone so brilliantly as in his illumination of the theory of foreign trade. But Ricardo, so far as I know, referred only to general prices as being subject to variation between different countries. Senior seems first to have laid it down explicitly that the range of money incomes depends on the conditions of foreign trade ("Lectures on the Cost of Obtaining Money" (1830), pp. 13–16). Mill spoke sometimes of high prices, sometimes of high incomes, as the result of favorable conditions of foreign trade, and did not pause in his exposition to consider the relation of money incomes and domestic prices. Cairnes followed Senior, though using different language, when he said that a country was interested in having "cheap gold"; by which he clearly meant, though he did not say it in so many words, high money incomes—i.e. much gold for little labor. Cairnes also noted that "cheap gold" did not necessarily mean high prices of domestic commodities. See his "Leading Principles," Part III, chap. v, § 1. In Bastable's "Theory of International Trade," 4th edition, p. 71, there is a brief paragraph indicating that this able thinker had reflected on the complex relations of money incomes and prices. Professor Edgeworth's articles on International Trade in the *Economic Journal*, Vol. IV, take up quite different aspects of the theory. I have found nothing in the writings of French or German economists to show that such topics had engaged their attention at all.

reckoned low if they cost less money than similar things in Europe. But we may compare wagons and fares and rents, not with European rates, but with the prices of the same things at a different time and under different conditions in the United States. So considered, it is obvious that they are likely to vary with wages and money incomes. They will probably rise as money wages rise, and fall as money wages fall.

If we suppose, for example, that the conditions of international demand change to the advantage of a given country, that its exports sell on better terms, and that money incomes in the exporting industries rise, we may expect that the same rise in money incomes will spread to other industries. This will necessitate in those other industries a rise in prices. In the exporting industries the higher wages will be the result of higher prices; but in other industries higher prices will be as much a result as a cause of higher wages. The process of adjustment and enhancement will probably be slow and uneven, and will take time. In an immobile country, where custom and tradition have a strong hold on prices and wages, it may take a generation. Even in a mobile modern country, it will take years. But domestic prices will be higher in the end than they would otherwise have been. This, no doubt, is the sense which the older economists really had in mind when they set forth that a country having favorable terms of international trade would possess high prices. But their mode of stating the case might be easily understood to mean that domestic prices in such a country were higher than prices of the same things in other countries, which is a different proposition, and, as we have seen, a doubtful one.

Further, it is not certain that under the conditions thus assumed domestic prices will rise at all. *Pari passu* with the rise of money wages due to the country's better position in international trade, there may be improvements in the arts or the opening of new resources, which will reduce domestic prices or prevent them from rising. Given this force in operation on domestic prices at the same time with a turn in international trade causing money incomes to rise, and the parallel movement of wages and prices will be broken. Such was the general trend—rising wages and falling prices—through the last thirty years of the nineteenth century; it may prove to be again the trend before the close of the present century.

The experience of the United States during the last quarter of the nineteenth century serves to illustrate the principles just stated, precisely as the general range of our domestic prices has served to illustrate the relation between international trade and domestic prices. A striking phenomenon in the international trade of the United States during this period was the insistent demand of foreign countries for our exports; and at no time was this more striking than during the closing years of the century. The main items in our exports are still the great agricultural staples: cotton, wheat and flour, other grains, meat and meat products. These are necessaries, or articles of enjoyment so habitually in use that they are very reluctantly dispensed with. The increase of population and the slow steady rise in the standard of comfort the world over, and particularly in European countries, caused an unrelaxing growth in the demand for them—a demand checkered indeed by the accidents of seasons and crops, and by the oscillations of industrial activity, but on the whole advancing without relaxation. So far as our imports are concerned, some are in similar strong demand on our part: coffee, sugar, tea, are insistently called for. But the imports of manufactures are mainly in a different case. They are articles easily dispensed with, more quickly dropped when their prices are high or times are hard, less easily stimulated to further use when their prices are lowered. All this brings it about that our exports are more easily and certainly disposed of abroad than imports are disposed of here. Hence specie tends, on the whole, to flow to this country (or, what comes to the same thing, the domestic output of specie is retained within our borders), and money wages and domestic prices tend to be high. That is, money wages tend to be high as compared with foreign countries, and domestic prices tend to be high as compared with what they otherwise would have been in our own country.

The forces which have brought about these consequences have not acted with uniform pressure. There has been a succession of pushes. Recurrently, periods have come when large crops of cereals in the United States have coincided with short crops in Europe or when the American cotton crop has declined or failed to grow. Then the insistent European demand has made itself felt with sudden effect. Exports have swollen and have exceeded the imports; specie has

flowed in; a period of excitement, rising prices and speculation, has begun. Such was the nature of the upward movement of 1897–1903. The revival of activity after the depression of 1893–97 was due to the slowly gathering demand for the staple exports; and the maintenance of activity was due fundamentally to the same increasing demand.[1] Hence imports of specie, retention of the domestic specie product, rising wages, rising prices. The rise in money incomes was well-nigh universal. The rise in domestic prices was less so, because offset here and there by improvements in the arts. All the demands of trade unions and all the scales of higher wages were immensely promoted by these conditions, if, indeed, they were not mainly caused by them. Labor unions, strikes, trade agreements, were the mechanism by which the fundamental cause has worked out its effect. That mechanism, no doubt, has important independent effects of its own; but it is not to be supposed the sole force or the strongest force in operation.

The favorable position which the United States thus has in international trade reacts on the effects of the protective system. That system has checked the demand for imports, and made it more difficult for foreign countries to provide the wherewithal for discharging their obligations on account of the exports which they want so insistently. The result has been that money incomes in the United States, which would be high in any case, have been pushed even higher; and thus domestic prices also have been held higher. On the other hand, the prices of imported goods have been depressed—either actually lowered or kept lower than they would have been—and the people of the United States have gained as consumers of imported goods. So far as they have been successful in stimulating the domestic production of goods that would otherwise have been imported—that is, so far as the protective system has achieved its avowed effect—this gain has been simply thrown away, and a loss has been substituted for it. But so far as importation has continued, the gain has been really secured. Many imports come in over the tariff barrier. These of course are raised in price over the foreign

[1] See the excellent analysis of the economic history of the United States during this period by A. D. Noyes, in the *Quarterly Journal of Economics*, Vol. XIX, February, 1905. Compare also the article by A. P. Andrew in the same journal, May, 1906.

price by the extent of the duties; but the treasury then gains what the consumers pay, and other taxes are presumably dispensed with; and the foreign price itself is lower than it would otherwise have been. As to duty-free imports, there is obviously a clear gain. They are lower in price, and the money incomes for buying them are higher. Whether the loss in buying the home-made protected commodities outweighs the gain in buying the commodities that continue to be imported is quite impossible of calculation. The ardent protectionist might find in this sort of reasoning a tenable ground for supporting his policy in a country situated as the United States has been; but few protectionists follow the strict logic of economics far enough to perceive the advantage which they might thus vaunt.

A last word may be said as to the relation of all this reasoning to the modern development of the theory of value, and more especially to the question how far value depends at bottom on utility, how far on sacrifice. The Ricardian assumption—tacitly followed in the preceding pages—was that in domestic exchanges values and prices depended on sacrifice, on labor. Those commodities, it was supposed, whose labor cost was low would be low in price, and so would tend to be exported. But do value and price depend on labor cost? Are there not, to use Cairnes's convenient phrase, non-competing groups? And is not utility the permanent regulator of value? If so, what of the reasoning which assumes that effectiveness and labor cost determine which commodities shall be cheap in money, and so shall be exported from a country.

Some allowance for this turn in the reasoning was made by the older economists. Exceptionally low wages in any particular industry, it was pointed out, had the same effect in international trade as low labor cost. Either served to give a comparative advantage, and to cause a commodity to take its place in the list of exports. Slave-grown articles were commonly used to illustrate this exception. But an exception it was still thought to be. In the main, labor cost determined value within a country, and so determined what goods should be exported. But, if there be no free movement of labor from group to group, and no correlation of capitalists' expenses to labor cost, will not the whole theory of international trade need to be overhauled?

The answer to this question is twofold. In the first place, there probably is more competition among laborers than the bare assumption of non-competing groups admits. Briefly to state my own view on this crucial matter, I do not believe that competition among workers is so free as to bring about an equalization of reward, and to adjust wages to sacrifice. There are effective obstacles to free movement. There are, in so far, non-competing groups; and value is proximately determined by utility, not sacrifice. But the barriers between groups are not impassable. The higher the differences in reward, the greater the number who get over the barriers and increase the supply in the favorably situated groups. Hence labor cost, sacrifice, are always in the background, so to speak, and prevent the sway of utility over value from being unqualified. The greater the deviation of value from equivalence to sacrifice, the less is it likely to persist. In the long run, competition between workers exercises not a dominating, but a correcting influence.

However this may be, there is a second reason why the theory of international trade does not need on this score serious modification. Goods are rarely made by workers of one grade only. The day laborer does not make one thing, the mechanic another, the engineer a third. They join in the combined labor applied to all the various commodities. Now, if the relations of the different grades to each other are the same in different countries, and if the same combinations of labor are used for any one article, the conditions of competition between the countries are precisely the same as if within each country labor cost alone determined value. If the earnings of engineers are twice as high as those of mechanics in all the countries, and the earnings of mechanics twice as high as those of day laborers, and if, moreover, the same combination of the labor of all three is used throughout in making the same commodity, then those things will be cheap which are produced in a given country with comparatively little labor, and those things will be dear which are produced with comparatively much. The former will tend to be exported, and the latter will tend to be imported.

It is not to be supposed that there is, among different countries, such absolute identity either in the relations of the different grades of labor as has just been assumed or in the way in which the grades are combined for the operations of production. Though the

phenomena of social stratification are on the whole similar in the civilized countries, new and old, there may be important differences. A particular group of workmen may be in higher demand in one country than in another. Their wages may be particularly high in the first country. If so, though their labor may be efficient, its product will be comparatively dear in price. On the other hand, a particular kind of labor may be so abundant as to be cheap in one country. Its labor may be paid for on a scale which is low as compared with the general scale in that country; and then the effect is precisely the same on international trade as if such labor were comparatively efficient.

Conditions of this kind seem to have developed in the German chemical industry, and to have constituted an important factor in its remarkable development during the period preceding the war. Chemists were cheap—unusually cheap. The industry had at its disposal a highly trained technical staff, at wages relatively low. The effect on trade was the same as if the staff had been unusually efficient; the chemical products could be put on the market at prices relatively low. Probably the staff was in fact not only cheap, but at least as good as in other countries. Either advantage, that of cheapness or that of efficiency, when particularly marked in a given industry, serves to promote the export of that industry's products.

I suspect that a similar situation has appeared in the United States in recent times—a situation in which a particular kind of labor has been paid, if not at decreasing rates, yet at rates that have failed to advance in accord with the general rise in money incomes. Broadly speaking, the pay of unskilled manual labor did not keep pace with the general movement; relatively, it declined. Most money incomes advanced in the United States, and the incomes of skilled mechanics advanced very considerably. But the wages of ordinary day labor, and of such factory labor as is virtually unskilled, seem to have remained stationary, and sometimes seem even to have fallen. The explanation undoubtedly is that immigration on a huge scale steadily maintained the supply of such labor. The pressure for employment on the part of the newly arrived kept down the pay for the simple sort of work they could turn to.

The consequence was that industries making large use of such labor were in a better situation than they had been before, and held their own against foreign competition more easily. The general conditions in the United States tend to give a comparative advantage to those industries that employ highly skilled labor in larger proportion—those that use machinery in whose construction and operation such labor plays a major part; for it is here that American industry, taken as a whole, has proved to have special effectiveness, i. e., a comparative advantage. But if unskilled labor is relatively cheap—at a greater discount, so to speak, than in competing foreign countries—the employer may still be able to use it with profit in competition with the foreigners. One of the striking changes in the economic development of the United States during the last generation was the growth of manufactures using such labor, the steady decline in the prices of their products, and their lessening dependence on support from the protective tariff. Such were the manufactures of pottery in its cheaper grades, of silk goods, of textiles in general. The cheapening of bituminous coal and of coke seems to have been part of the same phenomenon. The boasted advance of manufacturing industries was thus due in some degree to a change, not entirely welcome, in social conditions. No doubt other causes also contributed: the discovery and utilization of great natural resources, improvements in methods and machinery more rapid than the improvements in foreign countries, and protective duties pushed up to the highest limit. But it remained true that the comparative degradation of the lowest stratum in the social structure was a contributing factor.

A situation of this sort is not likely to endure indefinitely, least of all in a country like ours, where the general conditions promote mobility of labor. Moreover, legislation for checking the continuing inflow of immigrants, such as that of the illiteracy test, tends to remove the underlying cause. It would be idle to speculate on the movements of population that will follow the war in Europe or America, the changes in the rates of wages, the coming industrial conditions. The case, as it stood for a considerable period, serves to illustrate how differences in wages, to the extent that they are more marked in one country than in another, influence relative prices and therefore the currents of international trade.

To sum up the main thesis: so far as there is great effectiveness of labor, there will be low prices of those among a country's products which come within the sphere of international trade, and such products will be exported. This much is familiar doctrine. Domestic commodities, so far as produced with the same effectiveness, will also be low in price; if not so produced, will be high in price. This is less familiar doctrine. And high money wages, in the last analysis, are the consequence not of general effectiveness, but of that which is found more especially in the production of exported goods.

## TAUSSIG: THE PRINCIPLE OF COMPARATIVE ADVANTAGE[1]

The doctrine of comparative advantage,—or, in the phrase more commonly used by the older school, of comparative cost,—has underlain almost the entire discussion of international trade at the hands of the British school. It has received singularly little attention from the economists of the Continent, and sometimes has been discussed by them as one of those subtleties that have little bearing on the facts of industry. I believe that it has not only theoretical consistency, but direct application to the facts; and that in particular it is indispensable for explaining the international trade of the United States and the working of our tariff policy. Neither the familiar arguments heard in our controversy nor the course of our industrial history can be understood unless the principle of comparative advantage is clearly understood and kept steadily in view.

Briefly stated, the doctrine is that a country tends under conditions of freedom to devote its labor and capital to those industries in which they work to greatest effect. It will be found unprofitable to turn to industries in which, though labor and capital may be employed with effect, they are applied with less effect than in the more advantageous industries. The principle is simple enough, nor is it applicable solely to international trade. The conversant reader does not need to be told that it bears on the division of labor between individuals as well as on that between nations. The lawyer finds it advantageous to turn over to his clerk that work which he could

[1] F. W. Taussig, Some Aspects of the Tariff Question (1915), chap. iii.

do as well as the clerk, or even better, confining himself to the tasks in the profession for which he has by training or inborn gift still greater capacity. The able business leader delegates to foremen and superintendents routine work of administration that he could doubtless do better than they; he reserves himself for the larger problems of business management for which he has special aptitude. The skilled mechanic often has a helper to whom he delegates the simpler parts of his trade, giving his own attention to those more difficult parts in which he has marked superiority.

In international trade, however, the principle, if not most important, needs most attention; because it is obscured by the extraordinary persistence of prejudice and of shallow reasoning in this part of economics. Simple as it is in its statement and in its more obvious applications, it extends to some complex and difficult problems, and more particularly to those concerning the varying ranges of prices and wages in different countries. There is perhaps no topic in economics on which there is more of popular confusion than on this; nor can it be said that there is always careful and consistent thinking on it among economists who contemn the popular superficialities. Though fallacies of much the same sort are prevalent in all countries, the United States is above all that for which the principle is most important and for which there is most need of explaining the connection between prices, wages, and the currents of international trade.

Whatever the differences of opinion among economists on the theory of wages,—and those differences are less in reality than in appearance,—there is agreement that a high general rate of wages rests upon general high product, on high effectiveness of industry. It is not necessary here to enter on the question whether, in speaking of the effectiveness of industry, we should consider precisely in what way it can be said to be based on the several factors in production, or caused by them. Some economists regard capital and natural resources (land) as distinct factors, contributing each its specific share to the total product of industry. Others regard them simply as means or conditions for enabling labor to work with effect and so to turn out a large product. The latter seems to me the better way of stating the case,—that labor is the fundamental agent in production; but for the present purpose it is

not material which form of statement is preferred. It is agreed among the careful thinkers on economics that high general wages and a high degree of material prosperity can result only from the productive application of labor; good tools or good natural resources, or both, being indispensable to high productivity. And when "labor" is spoken of, it must be remembered that not only manual labor is meant, but the equally important labor of organizing and directing the rank and file. In the United States more particularly, the general effectiveness of labor depends in great degree on the work of the industrial leaders.

Now when there prevails a general high range of wages, due to generally productive application of labor, this high rate comes to be considered a difficulty,—an obstacle. The business point of view is commonly taken in these matters not only by the business men themselves, but by the rest of the community. To have to pay high wages is a discouraging thing in business; does it not obviously make expenses high, and competition difficult? People do not reflect that wages are not high as a matter of course. If they are in general high, there must be some general cause. Once established, they are taken in a country like the United States as part of the inevitable order of things. The ordinary man does not stop to consider why they should exist at all. He regards them as something he must face, and too often as something that constitutes a drawback in industry.

When speaking of wages as high, we may have in mind either money wages or commodity wages ("real" wages, in the older phrase). It is familiar to all that money wages are higher in the United States than in Europe; and it is almost as familiar that the greater money wages are by no means completely offset by higher prices, and that there remains a large advantage in real or commodity wages. Let us center attention for the moment on this latter and more substantial advantage,—the higher commodity wages.

It is obvious that higher commodity wages cannot be handed over to workmen by employers unless the workmen (as guided by the employers and aided by tools and machines) turn out a large product,—unless there is greater *effectiveness* of industry. I say effectiveness, not efficiency, because the latter word has come to be used so often to denote one particular factor that bears on the quantity of product,—the immediate efficiency of the manual

workers; by no means the sole or even the commanding factor. In current discussions on the tariff and wages, it has often been alleged that in one industry or another the efficiency or skill of the workmen is no greater in the United States than in England or Germany; that the tools and machines are no better, the raw materials no cheaper. How then, it is asked, can the Americans get higher wages unless protected against the competition of the Europeans? But, it may be asked in turn: suppose *all* the Americans were not a whit more skilful and productive than the Europeans,—perhaps quite as skilful, but not more so; suppose the plane of effectiveness to be precisely the same throughout the realm of industry in the countries compared; how *could* wages be higher in the United States? The source of all the income of a community obviously is in the output of its industry. If its industry is no more effective, if its labor produces no more, than in another community, how can its material prosperity be greater and how can wages be higher? A high general rate of real wages could not possibly be maintained unless there were in its industries at large a high general productiveness.

But when once these two concomitant phenomena have come to exist,—a high effectiveness of industry and a high general rate of wages,—it follows that any industry in which labor is *not* effective, in which the plane of effectiveness is below that in most industries, finds itself from the business point of view at a disadvantage. It must meet the general scale of wages in order to attract workmen; yet the workmen do not produce enough to enable that general scale to be met and a profit still secured. Such an industry, in the terms of the principle now under discussion, is *ipso facto* working at a comparative disadvantage. In other industries, product is high; that is, labor cost per unit is low. In this industry, product is low; labor cost is high. The industry does not measure up to the country's standard, and finds in that standard an obstacle to its prosecution.

Consider the same problem,—the relation between wages, costs, prices,—from the point of view of money wages. Here again we are beset by everyday fallacies and superficialities. High money wages, it is commonly alleged, cannot be paid unless there be high prices for the goods made. A dear man is supposed to mean a dear coat, and a cheap man a cheap coat. Yet it is beyond dispute that

in the United States, while money wages are higher than in European countries, the prices of things bought are on the whole *not* higher. Though some things cost more, and higher money wages therefore do not mean commodity wages higher in the same degree, real wages remain higher by a substantial amount. The dear man may perhaps mean a dear coat,—of this we shall learn more when we come to consider the domestic conditions of production for clothing; but the dear man certainly does not mean dear food, and probably does not mean a dear house. The explanation is simple: though wages in money are high, the effectiveness of the dear man's labor on the whole is also high, and therefore goods on the whole are *not* dear. Where a man who is paid high wages turns out a larger number of pieces, each piece can be sold at a low price, and the employer still can afford to pay the high wages. With reference to individuals, the business world is constantly accepting this principle. A good man, we are told, is cheap, even at high wages. To use the same phrase, a good industry is cheap even though high wages are paid in it. Where labor is effective, high wages and low prices go together.

None the less, an established high rate of wages always presents itself to the individual employer as a difficulty that has to be overcome. And to the employee it presents itself as a thing in danger,—something that must always be jealously guarded. Yet it is a real difficulty for the employer only where the effectiveness of labor is not great; and for the employees also it needs no protection, so far as the competition of foreign products is concerned, where this same essential condition is found. If, indeed, such effectiveness does not exist, then the American employer cannot pay the prevailing high rate of wages, and hold his own in free competition with producers in countries of lower wages. In other words, he cannot hold his own unless there is the comparative advantage in his particular industry. The prevalence of a general high rate of wages is due to the fact that in the dominating parts of the country's industrial activity the comparative advantage exists. These dominating industries set the pace; in them we find the basis of the high scale of remuneration; it is they which establish a standard which others must meet, and which to the others presents itself as an obstacle.

Some further explanation of these general statements is necessary before they can be made to fit all the facts. What has just been

said of dominating industries holds only as regards those industries and those commodities which play a part in international trade.

For sundry reasons, many articles do not come within the range of international dealings. It is out of the question that they should be exported or imported. Such are bulky articles, not readily transportable for any distance, like bricks; these are necessarily produced near the spot where they are used. Such again are articles greatly affected by national habit, like furniture or household utensils; and,—to mention a highly important class,—such are houses and house-room, which must be provided once for all by domestic labor. Things of this sort may or may not be higher in price than they are in foreign countries. They are made by labor which is paid the current high rates of money wages. If that labor is more effective than in foreign countries, the commodities will yet be lower in price than abroad. But if that labor is not effective as compared with similar labor in foreign countries, the commodities will be higher in price. Domestic commodities, therefore,—meaning by that phrase the commodities which are necessarily produced within the country,—may be higher in price than they are in foreign countries, or the same in price, or even lower in price, according to the effectiveness of the labor engaged in producing them. If by some change in the underlying conditions,—say, an extraordinary cheapening of transportation,—their importation were to become feasible, the employer would find it impossible to compete with foreigners *unless* there was the same effectiveness of industry in producing them as there was in the dominant industries.

As regards commodities potentially within the range of international trade,—and with these alone the tariff controversy is concerned,—the principle of comparative advantage applies more fully and unequivocally to the United States than to any country whose conditions are known to me. The difference in money wages between the United States and European countries is marked; the difference in commodity wages, though not so great, none the less is also marked. Notwithstanding these high wages, constituting an apparent obstacle or handicap for the domestic producer, the United States steadily exports all sorts of commodities; not only agricultural products, but manufactures of various kinds. Evidently they

could not be exported unless they were sold abroad as cheaply as foreign goods of the same sort are there sold. That these products of highly paid labor are exported and are sold cheap, is proof that American industry has in them a comparative advantage. There are other goods which, though not exported, are also not imported; goods where the balance of advantage is even, so to speak. They are not such as are ruled out of the sphere of international trade once for all, because of great bulk or necessity of production *in situ*; they might conceivably be imported; yet in fact they are not imported. These are the products of industries in which American labor is effective, yet not effective to the highest pitch; effective in proportion to the higher range of money wages in the country, but barely in that proportion. And finally there are the goods whose importation continues, even though there is no obvious obstacle to their domestic production from soil or climate. These are things which, it would seem, could be produced to as good advantage at home as abroad. They *could* be produced to as good advantage; but they lack the comparative advantage. They do not measure up to the standard set by the dominant industries. The obstacle to their successful prosecution within the country is not physical but economic. It is they which find in high wages an insuperable difficulty. In this class belong the industries which are protected, and which would not hold their own without protection. They are in a position analogous to that of the strictly domestic industries in which labor is not effective, but which, being carried on of necessity within the country, have high prices made necessary by high money wages. The obvious difference between the two cases is that the force which causes the strictly domestic industries to be carried on is an unalterable one, such as the difficulty or impossibility of transportation; while that which causes the protected industry to become domesticated is the artificial one of a legislative barrier.

What, now, are the causes of industrial effectiveness and comparative advantage? To put the question in other words, what are the industries in which a comparative advantage is likely to appear? and, more particularly, in what directions is the labor of the people of the United States likely to be applied with special effectiveness?

The more common answer has been, in agriculture. A new country, with abundance of fertile land, finds its labor most effective in the extractive industries. Hence the United States long were steady exporters of wheat, meat products, cotton. Hence Canada is now a heavy exporter of wheat. Wheat is specially adapted to extensive culture, and is easily transportable; it is the commodity for which nature gives to a new country in the temperate zone a clear comparative advantage. The international trade of the United States was long determined chiefly by the country's special advantages for the production of wheat and similar agricultural staples.

It should be noted, however, that not only the natural resources told, but the manner in which they were used. From the first, inventiveness and ingenuity were shown. The United States early became the great country of agricultural machinery. Especially during the second half of the nineteenth century, the skill of the makers of agricultural implements and the intelligence of the farmers who used the implements were factors not less important than the great stretches of new land. Still another factor of importance was the cheapening of transportation. From the very beginning, the Americans have been energetic and successful in overcoming the vast distances of their country. Our railroads have cheapened long hauls as nowhere else. The most striking improvements of this sort were made in the last third of the nineteenth century; then new lands were opened, and agricultural products exported, on a scale not before thought possible. When the effectiveness of labor is spoken of, the effectiveness of *all* the labor needed to bring an article to market is meant; not merely that of the labor immediately and obviously applied (like that of the farmer), but that of the inventor and maker of threshing-machines and gang-plows, and that of the manager and worker on the railways and ships. In other industries even more markedly than in agriculture, the labor of the directing heads, of the planners and designers, tells in high degree for the final effectiveness of the labor which is applied through all the successive stages.

That the situation began to change with the opening of the twentieth century does not need to be explained at length. The period of limitless free land was then passed, and with it the possibility of increasing agricultural production under the specially

advantageous conditions of new countries. For one great agricultural article—cotton—the comparative advantage of the country indeed maintained itself, and its exports continued to play a great part in international trade. The exports of other agricultural products,—wheat, corn, barley, meat products,—have by no means ceased, nor will they cease for some time. But they tend to decline, absolutely and even more relatively. Other articles grow in importance, such as copper, petroleum, iron and steel products, various manufactures. For some of these,—copper, for example,—the richness of our natural resources is doubtless of controlling importance. But the manner in which those natural resources are turned to account is in all cases important; and in many cases the comparative advantage of which the exports are proof rests not on the favor of nature at all, but solely on the better application of labor under conditions inherently no more promising than those of other countries. What are the causes of advantage under these less simple conditions?

The same question may be asked regarding a closely-allied phenomenon, referred to a moment ago. A considerable range of manufactured articles, though not exported, are yet not imported. The domestic manufacturer holds the domestic market with ease, while paying higher wages than his foreign competitor. The range of such industries is wider than is commonly supposed. It is obscured by the fact that our tariff system imposes needless and inoperative duties on a quantity of things which would not be imported even in the absence of duties. On the other hand there is a considerable range of articles on which the duties do have substantial effect,—articles which would be imported but for the tariff. Some of these continue to be imported notwithstanding high duties; they pour in over the tariff wall. Why the difference between the two sets of cases: those in which the domestic manufacturer holds his own irrespective of duties, and those in which he needs the duties or even is beaten notwithstanding the tariff support?

The answer commonly given is that American producers can hold their own more easily when much machinery is used. Then, it is said, the wages bill forms a smaller proportion of the expenses of production, and the higher wages of the United States are a less

serious obstacle. But it requires no great economic insight to see that this only pushes the question back a step. Why is not the machinery itself more expensive? The machinery was made by labor. It is a commonplace that a commodity made with much use of machinery is the combined product of two sets of laborers,—those who make the instruments and those who operate them. If *all* those whose labor is combined for producing the final result are paid higher wages than in foreign countries, why cannot the foreigners undersell where much machinery is used as well as where little is used?

The real reason why Americans are more likely to hold their own where machinery is much used, and where hand labor plays a comparatively small part in the expenses of production, is that Americans make and use machinery *better*. They turn to labor-saving devices more quickly, and they use devices that save more labor. Where Americans can apply machinery, they do so; and not only do so, but do so better, on the whole, than their foreign competitors. The question remains one of comparative effectiveness. Their machinery is not necessarily cheaper; absolutely often it is dearer; but it is cheap relatively to its effectiveness. It is better machinery, and the labor that operates it turns out in the end a product that costs not more, but less, than the same product costs in countries using no such devices, or using devices not so good.

In general, it may be laid down that this sort of comparative advantage is most likely to appear in the United States in two classes of industries,—those that turn out large quantities of staple homogeneous commodities and those that themselves make tools and machinery. Only where many identical things are turned out, does it pay to construct an elaborate and expensive plant. A machine-using people directs its energies to best advantage where thousands of goods of the same pattern are to be produced. Hence the repeated experience that, notwithstanding high duties, there is a tendency to import specialties and goods salable in small quantities only. Goods used by the masses in large quantities, as distinguished from luxuries bought by the comparatively few who are rich, are likely to be produced at home, without danger of being pushed by competing imports. If specialties, such as goods made to order, *must* be supplied by domestic producers, they are likely to be what

the customer thinks inordinately dear; because they are made preponderantly, or at least, in greater degree, by hand labor which is paid high wages and which by the very conditions of the case cannot use labor-saving machinery. Again, implements themselves, big and little, are likely to be well made in a country where people are constantly turning to machinery; from kitchen utensils and household hardware to machine tools, electric apparatus, and huge printing presses. These are things in which the success of American industry is familiar; which are exported, not imported; in which it is proverbial that the Yankee has a peculiar knack,—another way of saying that he has a comparative advantage.

The relation between high wages and the use of machinery calls for a word more of explanation. It is usually said that high wages are a cause of the adoption of machinery, and that we find here the explanation of the greater use of machinery in the United States. I believe that the relation is the reverse; high wages are the effect, not the cause. To the individual manufacturer it may seem a cause; he schemes to save in the wages bill by adopting a labor-saving device. But the reason why he is induced to scheme is that labor-saving devices are in common use and that the effectiveness of industry at large is therefore great,—hence high wages. No doubt the general situation has its reflex influence on the individual. Every one is put to his trumps; every one feels the need of playing the industrial game at its best. The abundant resources which so long contributed greatly, and indeed still contribute, to making labor productive, and wages high, thereby stimulated the introduction of labor-saving methods in industries not so directly affected by the favor of nature. But the fundamental cause of the prevalent use of machinery was in the intelligence and inventiveness of the people; these being promoted again by the breath of freedom and competition in all their affairs. What are the ultimate causes of industrial progress and industrial effectiveness is not easily stated; complex historical, political, perhaps ethnographic forces must be reckoned with. But these causes work out their results in modern times largely by prompting men to improve their implements and to use unhesitatingly new and better implements. Thence flows a high rate of return for their labor; it is not the high rate of return that leads them to use the better tools.

In creating and maintaining the comparative advantage which comes from the better application of the machine processes, the business man—the industrial leader—has become in recent times a more and more important factor. The efficiency of the individual workman has been much dwelt on in discussion of the rivalries of different countries: aptitude, skill, intelligence, alertness, perhaps inherited traits. No doubt qualities of this sort have counted in the international trade of the United States, and still count. The American mechanic is a handy fellow,—it is from his ranks that the inventors and business leaders have been largely recruited,—and he can run a machine so as to make it work at its best. But there is a steady tendency to make machinery automatic, and largely independent of the skill of the operative who runs it. The mechanics who construct the machines and keep them in repair must indeed be highly skilled. Once, however, the elaborate machine is constructed and kept in perfect running order, the operative simply needs to be assiduous. Under such circumstances the essential basis of a comparative advantage in the machine-using industries is found in management,—in invention, rapid adoption of the best devices, organization.

The business leader has been throughout a person of greater consequence in the United States than elsewhere. He has loomed up large in social consequence because he has been of the first economic consequence. He has constructed the railway, and opened up the country; he has contributed immensely to the utilization of the great agricultural resources; he has led and guided the inventor and mechanic. I am far from being disposed to sing his praises; there are sins enough to be laid to his account. But he has played an enormously effective part in giving American industry its special characteristics. His part is no less decisive now than it was in former times,—nay, more so. The labor conditions brought about by the enormous immigration of recent decades have put at his disposal a vast supply of docile, assiduous, untrained workmen. He has adapted his methods of production to the new situation. His own energy, and the ingenuity and attention of his engineers and inventors and mechanics, have been directed to devising machinery that will almost run itself. Here the newly-arrived immigrant can be used. So far as the American can do this sort of machinery making

to peculiar advantage, so far can he pay wages to the immigrants on the higher American scale and yet hold his own against the European competitor who pays lower wages to the immigrant's stay-at-home fellow. But it is on this condition only that he can afford to pay the green hand wages on the American scale, or on some approach to it: he must make the total labor more effective. The main cause of greater effectiveness in the dominating industries is to be found, under the economic conditions of recent times, not so much in the industrial quality of the rank and file as in that of the technical and business leaders.

Similar reasoning is applicable to another cause of effectiveness in industry which has been much discussed of late,—"scientific management." Some persons believe that here is a panacea of universal application; any and every industry can be made more effective by systematic observation and experiment on each of its steps and management based thereon. With reference to the protective system it was maintained, for example, after the reduction of duties in the tariff act of 1913, that scientific management, if generally adopted, would enable all American industries to meet the new and sharp competition of foreigners. The truth is that here also the question is one of comparative advantage. Scientific management is likely to tell more in some industries than in others. Apparently it tells most in industries of the standardized type,—precisely those in which industrial leadership already has proved of cardinal importance and in which Americans have already shown the greatest aptitude for leadership. It implies large-scale operation; since the heavy expense of preliminary investigation and the enlarged supervisory staff are worth while only if the expense is spread over a large output. It is adapted not to industries which produce specialties or small lots of numerous and varied articles, but to those in which the steady repetition of the same operations makes it profitable to work out an elaborate system. The indications are that it will not radically change the character of American manufacturing industry or modify the division between domestic and foreign sources of supply. Rather is it likely to accentuate existing relations; to strengthen American industry where it is already strong. Not all industries equally will feel its influence, but those in which this special form of industrial leadership tells with special effectiveness.

Returning now to the invention and operation of machinery, we have to consider a further possibility,—one which has played a considerable part in recent tariff discussions. The more machinery becomes automatic, the more readily can it be transplanted. Is there not a likelihood that apparatus which is almost self-acting will be carried off to countries of low wages, and there used for producing articles at lower price than is possible in the country of high wages where the apparatus has originated? In hearings before our congressional committees a fear is often expressed that American inventors and tool-makers will find themselves in such a plight. An American firm, it is said, will devise a new machine, and an export of the machine itself or of its products will set in. Then some German will buy a specimen and reproduce the machine in his own country (the Germans have been usually complained of as the arch plagiarists; very recently, the Japanese also are held up *in terrorem*). Soon not only will the exports cease, but the machine itself will be operated in Germany by low-paid labor, and the articles made by its aid will be sent back to the United States. Shoe machinery and knitting machinery have been cited in illustration. The identical apparatus which has been brought in the United States to extraordinary perfection is sent to Europe (perhaps even made in Europe by the American manufacturer), and is there worked by cheaper labor. The automatic looms, again, which have so strikingly influenced the textile industry of the United States, and so much increased its effectiveness, are making their way to Europe,—here again being pushed into use by the American loom makers themselves. Is it not to be expected that they will be operated by cheaper English and German and French labor, and that their products will be shipped back to the United States, to the destruction of the very American industry which they had first made strong and independent?

This possibility is subject to exaggeration. It is not so easy as might be supposed to transplant an improved system of production and all that hangs thereby. However automatic a machine may be, intelligence and knack in operating it are always called for; though less, perhaps, among the ordinary hands than among the machine tenders and foremen. It is a common experience that the same

machinery will produce in the country of its invention and manufacture better results than when transplanted. Those very automatic looms, just referred to, are making their way very slowly into Europe. They do not fit into the traditional industrial practices, and do not accomplish what they accomplish in the United States. The difficulties which impede the transfer of machinery and methods, however perfected and however available for every applicant, are most strikingly illustrated in the rivalry of the Orient. We hear frequently of the menace of the cheap labor of China, India, Japan. Will not these countries deluge us with the products of cheap factory labor, when once they have equipped themselves with the latest machinery? The truth is that they will in all probability never thus equip themselves. To do so, would require more than the mere shipment of the machinery and the directions for working it. A completely different industrial environment would need to be transplanted. The yellow peril has been as much exaggerated in its economic possibilities as in its military.

None the less, some possibility of this sort does exist, especially in the rivalry between those countries of advanced civilization which are more nearly on the same industrial level. It is by no means out of the question that shoe machinery or automatic looms shall be worked as well in Germany as in the United States. Supposing this to be done, cannot the German employer who gets his operatives at low wages undersell the American employer who must pay high wages? Is not the comparative advantage which the United States possesses in its ingenious machinery necessarily an elusive one, sure to slip away in time? An advantage may indeed be retained indefinitely where skill or intelligence on the part of the individual workmen are necessary. Even here there is a doubt whether it will persist, in view of the spread of education and technical training the world over. At all events, in the widening range of industries where the workman merely tends semi-automatic machinery, the manufacturing industries of the country having high wages would seem to be in a perilous situation.

The only answer which can be given to questioning of this sort is that the leading country *must retain its lead.* As fast as other countries adopt the known and tried improvements, it must introduce new improvements. Unrelaxed progress is essential to sustained

superiority; he who stands still inevitably loses first place. Such was in the main the relation between England and the other western countries during the first three-quarters of the nineteenth century. English machinery was exported and English methods were copied throughout the world, but the lead of the British was none the less maintained. As fast as the other countries adopted the devices which originated in England, that country advanced with new inventions or with goods of new grades. A similar relation seems to exist at the present time between Germany and the other countries which follow her lead in some of the chemical industries. It appears also in the position of the United States in those manufacturing industries which contribute to our exports. As fast as the American devices are copied elsewhere, still other improvements must be introduced.

This will seem to the American manufacturer a harsh sentence, and a heartless or unpatriotic one to the ordinary protectionist. What? To be deprived of the fruits of our own enterprise and ingenuity, without protection from a paternal government against the interlopers? Yet I see no other answer consistent with the general reasoning of economics on international trade and the geographical division of labor. The gain which a country secures from its labor is largest when that labor is applied in the most effective way; and labor is applied with the greatest effectiveness only when it proves this effectiveness by sustained ability to hold the field constantly against all rivals.

This train of reasoning, however, can be carried further. It is conceivable that improvements and inventions will be so completely adopted by all the advanced countries as to bring about an equalization in their industrial conditions; which of necessity would lessen the volume and the importance of trade between them. Where an invention is introduced in a single country, it gives that country at the outset a comparative advantage, leads to exports, and swells the volume of international trade. When the invention comes into international use, however, the industry which it serves may drift toward the countries of low wages; and these then may export the products. *May* export them, be it observed; for this tendency is greatly checked by those obstacles to imitation and transplanting which have just been referred to. But suppose the

tendency not to be checked: suppose that each and every new device comes to be adopted in all countries, and used in all with equal effectiveness. Then the ultimate consequences will be different from those that nowadays follow the introduction of improvements. No one country will then possess advantages in manufactures over others; no one will be able to export to another; trade between them in manufactured goods,—if the assumed conditions hold absolutely,—will cease. All countries will secure in the same degree the benefit of the universalized inventions.

Such would be the inevitable outcome of complete equalization of the effectiveness of labor. The total income of a community is the product of its industry,—in the last analysis, of its labor. If labor is equally productive everywhere, differences in prosperity will cease. Then there will be no room for comparative advantages based on invention, peculiar effectiveness, better machinery, more skilful organization. The only trade between countries will be that based on unalterable climatic or physical advantages; such trade, for instance, as arises between tropical and temperate regions and between temperate regions having markedly different natural resources.

This consummation will not be reached for an indefinite period; nay, probably it will never be reached. Certainly it is beyond the range of possibility in any future which we can now foresee. But some approach to it is likely to come in the relations between the more advanced countries. There is a tendency toward equalization in their use of machinery, and so in their general industrial conditions. For the United States especially, the twentieth century will be different from the nineteenth. The period of free land has been virtually passed. That great basis of high material prosperity and of high general wages no longer exists as broadly and strongly as it did during the first century of our national life. The continued maintenance of a prosperity greater than that of England and Germany and France must rest on other causes. Now that fresh land can no longer be resorted to by the expanding population, a higher effectiveness of labor must depend almost exclusively on better implements and higher skill,—on labor better led and better applied. It may be reasonably hoped that the United States will long remain the land of promise, in the van of material progress;

but the degree of difference may be less than it was. This lessening difference will come about, probably, not because the United States will fall back but because other countries will gain on her. Such has been the nature of the changed relation between England and the countries of the Continent during the last generation; and such,—to go back earlier,—was the change in the relative positions of Holland and England in the course of the seventeenth and eighteenth centuries. England no longer retains the unmistakable leadership which she had over the Continent during the greater part of the nineteenth century. But she has not retrograded; the countries of the Continent have progressed. Such is likely to be the nature of the coming race between the United States and other advanced countries. And the outcome is one which every friend of humanity must welcome. It means diffused prosperity, economic and social progress.

For an indefinite time, however, differences in general industrial effectiveness will remain. They will obviously remain, so far as they rest upon natural causes,—differences in soil, in mineral wealth, in climate. They will remain also in many manufacturing industries in which physical causes are not decisive. Some countries,—the United States among them, we may hope and expect,—will use machinery better, will apply labor-saving appliances more freely. The people of the United States will direct their labor with greatest advantage to those industries in which their abilities tell to the utmost. The development of the different industries will unquestionably continue to be affected by the accidents of invention and of progress, by dominant personalities in this country and in that, by the historical development of aptitudes and tastes, by some causes of variations in industrial leadership that seem inscrutable. But a general trend is likely to persist; in the United States labor-saving devices will be adopted more quickly and more widely. . . . In the industries where machinery can be used to most effect, this country will continue to have a comparative advantage.

# V

## CAIRNES: INTERNATIONAL VALUES[1]

* * * * * * * * * * *

THE transactions of international trade are of course carried on through the medium of money—that is to say, of gold and silver; and Ricardo has shown that the effect of the play of international demand is to produce such a distribution of the precious metals, and such a relative scale of prices in commercial countries, as on the whole to cause the trade of each country with all others to be carried on upon the same terms as it would be if conducted by barter. When this state of things is realized, the precious metals (so far as they are employed as a medium of exchange, and not as a staple of commerce) cease to pass from country to country; and international trade is in a condition of equilibrium.[2] The point I desire now to call attention to is the condition of international demand which issues in this result.

The solution commonly given of this problem is that commercial equilibrium is attained when the value of the imports into a country, measured in gold or silver, the universal money of commerce, is equal to the value of the exports from that country. In the language of Mr. Mill, "the produce of a country exchanges for the produce of other countries at such values as are required in order that the whole of her exports may exactly pay for the whole of her imports."

[1] John Elliot Cairnes, Some Principles of Political Economy (1874), Part III, chap. iii.

[2] The equilibrium of commerce may, accordingly, be defined for all countries, *not being themselves producers of the precious metals*, as that state of trade which results in maintaining the *real* exchanges, one year with another, at par. Where it happens, however, that a country produces gold or silver for export, a premium on the exchange is, in this case, the normal state of things. During the last twenty years the commercial equilibrium has been extensively disturbed in most countries—the necessary consequence of the large additions now being made to our stock of money.

Now, as a matter of fact, it very rarely happens that the whole exports of a country, even if we take an average of many years, exactly pay for the whole of its imports; nor can it be truly said that there is any tendency in the dealings of nations toward this result. The evidence of this is to be found in any statistical table showing the exports and imports of different countries. An examination of such a table will show that there are countries which constantly, and as a normal state of things, import largely in excess of their exportations, while there are others of which the exports as regularly exceed the imports. In other cases, again, the imports will be found for a time to have exceeded the exports, after which the relation is inverted, and the exports begin to outstrip the imports. With such facts before us we can not easily admit that an equalization of imports and exports is the necessary condition of a staple trade; and this being so, we have to consider what that condition is.

To elucidate this, a better example can not be found than the external trade of the United Kingdom. I take it as set forth in the Statistical Abstract for the years between 1856 and 1870 inclusive. During the whole of this time the imports remained constantly and largely in excess of the exports. At the commencement of the period the exports stood at, in round numbers, £115,000,000, the imports at £172,000,000; the imports thus exceeding the exports by the amount of £57,000,000 sterling. At the end, that is to say in the year 1870, the exports were £199,000,000, while the imports reached £303,000,000, showing a difference in favor of imports of £104,-000,000; and the returns of the intervening years exhibit a constant predominance on the same side, and nearly in the same proportion. The question arises, How has this large excess of imports been paid for? The answer is, to a small extent it has been paid for in services, principally in the services of our mercantile marine, performing as it does a large proportion of the carrying trade of the world, but, in the main, it has not been paid for at all. It came to us from foreign nations, as all our imports have come, in the ordinary course of trade, but the proceeds on sale have never been returned in any form to those from whom the goods came: they were applied instead to the discharge of debts owing to us—debts, however, incurred on account of transactions wholly apart from our export trade. In point of fact, what has happened has been this: Great

Britain has for a long time occupied the position of a lender of capital to other nations; she has invested her capital freely in her own colonies; she has lent money to many countries for industrial undertakings, and has been a large purchaser of foreign stocks. On all these accounts foreign nations, including under this term our own colonies, have become her debtors, and, in discharge of their obligations accruing in the form of profits, interest, and dividends on stock, are compelled to send her, year by year, value to a large extent for which no payment in return is required. Here we find the explanation of the large normal excess of our imports over our exports. But an examination of the facts will further evince that this excess is, in the case of Great Britain, the indispensable condition of commercial equilibrium; that under any other circumstances the present relation of prices between her and foreign countries, or, what amounts to the same thing, the present proportion in which they exchange their products, could not be maintained. This will be evident if we consider what would be the consequence of an equality of value being established between British imports and exports, the financial relations of the country with the rest of the world being such as they are. Foreign nations would have to pay us, as now, for what we export, and for this, bills drawn against the goods they send us, that is, our imports, would exactly suffice. But they owe us besides, say a hundred millions, on account of dividends, interest, and other obligations. How are they to discharge this latter liability? It is evident they could do so only in one way, namely, by sending us gold to the value of the amount in question. An extensive influx of gold from foreign countries to Great Britain would thus set in, and—so long as the state of international prices, and therefore of international demand, remained at the point which had produced the equality of imports and exports—would continue. It is plain, however, that international prices and demand could not long remain steady under the circumstances supposed. The large and continued influx of gold into England would necessarily be attended by a rise of prices here, and a fall in foreign countries; and this would quickly lead to a change in the demand of England and of foreign countries for their respective products. England, in possession of enlarged monetary resources, and finding prices falling abroad, would extend her demand for

foreign commodities; while, for precisely opposite reasons, foreign countries would curtail their demand for the commodities of England. English imports would thus increase, and English exports diminish; and this would go on, year by year, so long as gold continued to flow.. But the question arises at what point would the process terminate, and trade find its equilibrium? The answer is: precisely when the excess of imports over exports had attained its present dimensions—when the former, that is to say, had exceeded the latter by a hundred millions sterling; for it would only be then that foreign countries could discharge all their liabilities to us without remitting gold. Gold would, therefore, at this point cease to flow, and prices would remain at the level they had reached. In a word, the trade between England and the world would once more have attained equilibrium.

And now we are enabled to answer the question propounded a few pages back. The answer may be formulated thus: The state of international demand which results in commercial equilibrium is realized when the reciprocal demand of trading countries produces such a relation of imports and exports among them as enables each country by means of her exports to discharge all her foreign liabilities—a position from which the following corollary may be deduced, that all payments, due from one country to another or to other countries on other accounts than that of imports, of a permanent character—for example, an annual tribute, interest on borrowed capital, dividends on stock, and so forth—and in excess of similar payments due from these latter to the former, will be represented in the foreign trade of that country by an excess of exports over imports; while, conversely, an excess of payments of this character to be received over payments due will find its commercial expression in an excess of imports over exports. This is, in truth, merely to say that the foreign trade of each country will adapt itself to the pecuniary requirements of that country in relation to the countries with which it trades. If a country has been a large borrower of foreign capital, and so is indebted to foreign nations in annual interest, or if, again, her people are much given to traveling in foreign countries, and so have occasion to remit annually large sums abroad for which no return is required, under such circumstances her exports will tend to exceed her imports; while,

under an opposite state of things, that is to say, if a country has been a large foreign lender, or if it be the scene of travel for the inhabitants of other countries—the imports will tend to exceed the exports. With many, indeed with most countries, it will happen that they are debtors to foreign countries upon one score and creditors upon another; and the state of the import and export trade will be such as the state of the balance in each case may prescribe. For example, Great Britain makes large remittances abroad every year to meet the expenses of Englishmen residing or traveling in foreign countries. This would tend to make her exports exceed her imports, and would actually produce this effect, if it were not that the debts due on this account to foreign nations are more than balanced by larger debts due on other accounts by them to us. The balance of such non-commercial payments being, on the whole, largely in favor of Great Britain, it results, as we have seen, that her imports are, as a rule, largely in excess of her exports. An illustration of the same principle in an opposite sense is afforded by the foreign trade of the United States previous to 1860. As all the world knows, the people of the United States had long been, as they are still, much addicted to foreign travel: they had also for a long time been extensive borrowers in European money markets. Both these practices combined to place them under the necessity of remitting annually large sums to Europe over and above what they owed on commercial account; and this obligation was discharged in the only way, in the long run, possible, namely, through the medium of United States products exported. Accordingly, if we turn to the Reports on the external trade of the United States for the period previous to 1860, we find, as the normal state of things in that trade, a pretty steady excess of exports over imports—an excess which in her dealings with Europe assumes very large proportions.

§ 6. The foregoing examples show the effects of international lending and borrowing on the external trade of nations *after* these practices have issued in monetary relations of a definitive kind. At the commencement, however, and for so long as the process of incurring debt is still in actual operation, the effect of such practices on the foreign trade of a country is exactly the reverse of that which is subsequently realized. The nations which have engaged to lend

are, during this period, those which have pecuniary obligations to discharge; the nations which borrow, those which are entitled to receive payments in excess of what is due to them on their ordinary trade; and for a time the external trade of both tends to adapt itself to this state of things. The subject is perhaps of sufficient importance to deserve some detailed illustration.

Let us, then, suppose an industrial colony, starting on its career, to become a borrower of capital from its mother-country; and, for simplicity of illustration, we will assume that neither is a producer of the precious metals, which, therefore, would only pass between them in discharge of pecuniary debts. The amount which the mother-country undertakes to lend, and the colony to receive, we will set down at one million sterling annually. This being the position of affairs, it becomes necessary that the sum to be lent should be remitted each year from the mother-country to the colony, and this, it is manifest, can only be done, either by a remittance of gold to the amount required, or by an exportation, in addition to that ordinarily taking place, of commodities to the same value, or by a combination of both these methods. If the colony is content to take the entire amount, or any portion of it, in commodities, this would imply a corresponding increase in colonial imports over colonial exports; for it would only be in the event of the increased importation being unbalanced by exports from the colony to the mother-country that the proceeds arising from it would be available for the mother-country in discharge of the loan, and there would obviously be nothing in what had occurred to lead the latter to increase her demand for colonial products. But it is probable that at least a portion of the loan would be sent in gold; and this would operate indirectly toward the same result. For the flow of gold into the colony year by year would necessarily raise colonial prices, while it would tend in the opposite direction in the mother-country; and this, through a play of forces I have already more than once described, would be followed by an increase of colonial importations, and a corresponding decline in the exportation of colonial products —a process which would manifestly continue, until at length the excess of commodities sent from the mother-country to the colony over those received from thence would enable the former to pay the whole annual loan by means of her commodities alone. At this point

the trade between them would be *in equilibrio*; the exportations from the mother-country having become sufficient to enable her to discharge by this means all her liabilities to the colony. Up to this stage, then, the effect of foreign borrowing on the colony would, so far as we have yet traced it, tend toward an excess in her importations from the mother-country over her exportations thither. This would be the initial effect.[1] But during the continuance of the process just described, the grounds of an opposite state of things would be steadily developed. With every million sterling annually remitted, the colony would become indebted to the mother-country for the interest on the amount. Supposing the rate of interest to be five per cent. per annum, at the end of the first year the debt of the colony to the mother-country would be £50,000: consequently, in making her next remittance on account of capital, the mother-country would only need to send value to the amount, whether in commodities or gold, of £950,000. In the following year, the colony would owe on account of interest £100,000, which, still supposing the same amount of capital to be lent, would reduce the liabilities of the mother-country on this score to £900,000, and this process of gradual diminution of the mother-country's extra commercial liabilities to the colony would, at the end of twenty years, issue in this result, that the sum due by the colony on account of interest would equal the entire amount of the annual loan. What would be the effect on the external trade of the colony of this growing indebtedness to the mother-country? Manifestly to neutralize that produced by the operation of the influences developed in the early stages of these transactions. The obligation of the mother-country to remit value to the colony, in addition to what she owed on account of goods imported thence, gave an impulse to her export trade, and caused the importations of the colony to exceed her exportations. The obligation of the colony to discharge its growing liability to the mother-country would now, year by year, operate to reduce the excess, until at length the liabilities incident to the loans on each side balancing each other, the equilibrium of trade would be found

[1] If the reader desires to verify the soundness of the position thus far, he has only to turn to the statistics of the external trade of some of the leading colonies of Great Britain, in which the imports will be found steadily and systematically to exceed the exports.

in such a relation of exports and imports as would balance their remaining obligations—on the supposition that these latter should consist exclusively of commercial debts, then in an equality of imports and exports. This state of things, however, would be but momentary.

We have supposed the colony to have continued borrowing at the rate of £1,000,000 sterling annually for twenty years. At this stage, let us make the supposition that she suddenly ceases to borrow, and observe what, on this hypothesis, would be her financial position in relation to the mother-country. In the first place, she would be bound to pay £1,000,000 sterling annually on account of interest; but, no longer receiving the proceeds of the loan as formerly, she could not set off one obligation against the other. It would, therefore, be necessary for her to remit value to the amount required—in other words, her position relatively to the mother-country at this stage of affairs would be financially identical with that of the mother-country toward her at the outset, with this difference, that no new indebtedness would be growing up on the side of the mother-country to neutralize the permanent obligations incurred by the colony. The financial conditions of the case being thus changed, the external commerce of the two countries would adapt itself to the altered state of their reciprocal liabilities. Gold would once again begin to flow, but the tide would this time be directed from the colony to the mother-country, and it would be followed by a series of effects similar in character, though opposite in direction, to what we have already traced. Year by year the exports from the colony to the mother-country would exceed its imports thence, until at length the excess became sufficient to enable the former to discharge its financial liability in the products of its own industry. The efflux of gold would at this point cease, and the trade between the two countries would be *in equilibrio* once more.

We may make yet another supposition. The colony, instead of suddenly ceasing to borrow at the end of the twentieth year, might continue her borrowings on the former scale of £1,000,000 annually. On this supposition, her debt to the mother-country, on account of interest, at the end of the twenty-first year would be £1,050,000; but £1,000,000 of this could now be set off against the annual loan. In other words, the net balance due to the mother-country would be

£50,000; but, on the supposition that the borrowing continued, this balance would grow year by year in arithmetical proportion, and would act upon her external trade, in proportion to its amount, in the manner already shown. In course of time we may assume that, as wealth increased in the colony, she would have less need of foreign capital, and would borrow less or not at all, but she would still be liable to send abroad value in excess of her commercial obligations to the amount of the interest due on all debts previously incurred. The normal state of the external trade of the colony would, therefore, under the circumstances supposed, be one in which her exports largely exceeded her imports; and such it would continue to be until either the original debt was paid off, or the colony herself had become a lender, and by this means imposed a similar tribute upon other countries.

§ 7. Such is the nature of the influences, immediate and remote, exerted on the external trade of countries by the practice of foreign borrowing. In order to render the principle clear, it was necessary, in the first place, to exhibit its operation under very simple conditions; and I, therefore, had recourse to a hypothetical case. But so much, it is hoped, having now been accomplished, it may be well to turn from our imaginary mother-country and colony to an actual instance of international lending and borrowing on a vast scale. During the last thirteen years the financial transactions of the United States with Europe have far exceeded all former examples of the same kind, and the effects which they have produced, both on her external trade up to the present time, and still more on her commercial and financial position with reference to the future, have been of a magnitude correspondingly great. As furnishing, therefore, a striking practical illustration of the principles we have been considering, and in particular of the modes in which international settlements on a great scale are effected, it will, I think, be profitable to consider here in some detail the character and scope of those transactions.

It has been already seen that previous to 1860 the normal condition of the external trade of the United States was one in which the exports steadily exceeded the imports, this being the natural commercial outcome from the state of her financial relations with

Europe. But the advent of the Civil War brought with it a series of events, each of potent influence, and which in their combination have sufficed to shake American trade to its centre, and to render the financial position of the Union in presence of Europe unprecedented and critical in the extreme. Of these events the most important were (1), the enactment of the Morrill tariff in 1861, by which the United States passed from what was substantially a free trade commercial *régime* to one of high protection; (2), the sudden cessation of cotton cultivation, and, as a consequence of this and of the Civil War, the temporary collapse of the cotton trade with Europe; (3), the creation of an enormous national debt, simultaneously with considerable additions made to State and other debts previously contracted, a large proportion of the funds in both cases being furnished by foreigners; and, lastly, the issue of an inconvertible paper currency to take the place of the mixed system of coin and convertible credit which formerly prevailed. The passing of the Morrill tariff and the present rigidly protective system of the United States will be the subject of special examination in a future chapter. For our present purpose it will be sufficient if we attend to the three last of the occurrences named, and mainly to the consequences involved in the sudden increase in foreign indebtedness, taken in connection with the collapse of the cotton trade.

Let us first observe the scale on which the new debt was created. It amounted—we may say in round numbers—to about five hundred millions sterling, of which some two hundred millions were taken by foreigners.[1] In addition to this, numerous other loans were effected on State, railway, mining, and other securities, reaching in the aggregate a very large sum, of which the amount that found its way to Europe was, according to Mr. Wells, not less than one hundred millions sterling. These transactions were spread over several years—we may say broadly, over the last three years of the war, and the two or three immediately succeeding. Regarding them as they affected the financial relations of Europe and the United States, the result may be thus stated: Europe undertook to send immediately, that is to say, as fast as the several obligations were incurred, some £300,000,000 sterling to the United States; while the United States on her side engaged to pay the interest on

[1] See Wells's Report, 1869.

this sum to Europe for all time, or until the principal was discharged. The transactions, as I have said, were spread over some five or six years, and, making allowance for the dividends which would be accruing on the investments from the time they were effected, and which might be used as a set-off against the principal sums still becoming due as new investments were made, the amount required to be sent from Europe to the United States during the period under review would not be less than some £40,000,000 sterling annually. Under ordinary circumstances—in such a state of external trade, for example, as had existed previous to 1860—so enormous and sudden an increase of payments from one continent to the other could only have been effected through the medium of bullion. The ordinary flow of gold from New York to Europe would have been suddenly checked, and a counter-current would have set in from Europe to New York—operations which could not fail to produce a profound ferment in the money markets of the two continents. As it was, however, the settlement of these vast transactions occasioned very little disturbance of any kind. The explanation is mainly to be found in another of the circumstances to which I have called attention, the collapse of the cotton crop; for the effect of this was suddenly to leave the United States without the means of paying Europe for her ordinary importations thence, swollen as these had recently been by large purchases of material of war. In the result the United States stood largely a debtor to Europe on commercial account; while on financial account the balance was not less decidedly against Europe; and, the amounts on both sides nearly corresponding, the settlement of the complex transactions became possible by the simple expedient of setting off one class of obligations against the other. This, in effect, is what was done. The reciprocal obligations of Europe and the United States were thus adjusted for the time, though by a sort of financial *coup de main* that could not well be repeated; and now I invite the reader to contemplate the state of things which has supervened.

§ 8. On the termination of the war the cultivation of cotton was, of course, resumed, and already that staple, as an article in the trade of the United States with Europe, has attained its former proportions, if not in quantity at least in value. On her other

domestic exports (in which, be it remembered, specie is included) there has been an increase, though not a large one, and only during the last two years. But while this has been the case as regards exports, her imports have risen from 335,200,000 dollars, at which they stood in 1860, the year previous to the war, to 617,000,000 dollars, their amount according to the latest returns. The reader will remember that previous to the war the exports of the United States had, as a normal state of things, exceeded the imports; the excess on this account during the ten years between 1851 and 1860 (inclusive) having amounted to an average sum of 6,000,000 dollars annually. Now, however, the balance is on the other side. It is the imports which are in excess of the exports. In the five years, 1868–1872 (inclusive), the excess amounted on an average to 44,000,000 dollars annually; while in the last year of the period (1872) it grew to no less a sum than 116,000,000 dollars. Now, from the explanations already given, the reader will understand that such a state of external trade, assuming it be sound and normal, would imply a state of financial relations between the United States and Europe in which the former country was largely a creditor of the latter; for it is only on this supposition that a large excess of imports over exports could continue consistently with national solvency. So far, however, from the facts being in accordance with this supposition, they are exactly the reverse of this. The United States is largely a debtor to Europe on financial account, while her exports are not even sufficient to cover her commercial liabilities. It will be worth while to consider this position of affairs somewhat more in detail.

As I learn from figures given by Mr. Wells in his Report for 1868, the dividends due to European holders of United States stocks of various kinds amounted in that year to 80,000,000 dollars. This, however, is but a portion of her extra commercial obligations to Europe. Her remittances to foreign countries to meet the expenses of her citizens residing or traveling abroad reached in the same year, according to the same authority, so large a sum as 25,000,000 dollars, and it does not appear that there was any thing exceptional in this expenditure. Lastly, we learn from Mr. Wells that an annual debt to foreign countries of 24,000,000 dollars more is incurred on account of freights carried in foreign bottoms. The aggregate of

these various sums is 129,000,000 dollars, in round numbers we may say about £26,000,000 sterling; and this sum the United States has to pay annually to foreign countries, over and above what she owes on account of her importations. Now, as I have already explained, there is but one means by which a nation can in the last resort discharge her liabilities to other nations—namely, through the value of her products exported. We have seen, however, that the exports of the United States, as things now stand, far from being adequate to the liquidation of her annual aggregate liabilities, are insufficient to meet those incurred on commercial account alone; the deficiency, taking the average of the last five years, having, as I have just shown, reached the large sum of 44,000,000 dollars—let us say in round numbers about £9,000,000 sterling. We have thus a balance of £9,000,000 on commercial account, plus a further sum of £26,000,000 on extra-commercial account—in all £35,000,000 sterling—due, year by year, by the United States to foreign countries, in excess of what the value of her exported goods enables her to discharge. The question arises, How is this liability to be met? How it has been met up to the present time I have no means of accurately determining; but one expedient, we know, has been brought extensively into requisition. During the period since the war the sale of American securities in the markets of Great Britain and the Continent has been large and increasing. The United States has ceased, indeed, to add to her public debt, and has even made some progress in reducing it, but it is probable that the proportion of this debt in the hands of European holders has of late increased, and it is certain that the amount of European capital which now finds its way to private investment in America is immensely greater than it has ever been at any former period. Here, then, is a resource which, so far as it goes, and so long as it lasts, the United States may employ in liquidation of her uncovered liabilities; the sums payable by Europe in purchase of American securities being as much available in discharge of American debts as if they were obtained in payment of exports.[1]

[1] The mechanism through which these international transactions are carried into effect is the Foreign Exchanges. I have not, however, thought it necessary to enter into this part of the subject, as it has been already so fully and lucidly expounded by Mr. Göschen in his work on the "Foreign Exchanges," to which the reader is referred.

Whether those sums have hitherto proved sufficient for the purpose required, must, for the moment, remain matter for conjecture, but it may be confidently asserted that, in any case, they can only be regarded as a temporary make-shift. No nation can continue to pay its foreign debts by the process of incurring new debts to meet a balance yearly accruing against it; yet this, in truth, is the nature of the financial operation by which of late years the United States has contrived to settle accounts with the rest of the world. Even on the supposition that European investment is to continue on its present scale, the interest upon it would, as I have shown, come in time to exceed the principal annually invested; while the balance uncovered by exports would still remain absolutely unprovided for. These considerations lead me to the conclusion that the present condition of the external trade of the United States is essentially abnormal and temporary. If that country is to continue to discharge her liabilities to foreigners, the relation which at present obtains between exports and imports in her external trade must be inverted. Her exports must once again, as previous to 1860, be made to exceed her imports, and this by an amount greater than the excess of that former time in proportion as her financial obligations to foreign countries have in the interval increased. This, it seems to me, is a result which may be predicted with the utmost confidence. The end may be reached either by an extension of exportation, or by a curtailment of importation, or by combining both these processes, but by one means or other reached it will need to be. It is simply the condition of her remaining a solvent nation. The people of that country may, therefore, if I am right in this speculation, look forward to witnessing a result for which the promoters of their present commercial policy have often sighed—they may expect, before many years, to see United States commodities selling in foreign countries in vastly greater quantities than the commodities of foreign countries in the markets of the United States. How far their estimate of this condition of their trade will be affected by the circumstance that a large proportion of the proceeds from those augmented foreign sales will find its way into European pockets, is a point on which it would be scarcely becoming in the present writer to offer an opinion.

The conclusion just stated suggests a further reflection. A change in the relation of exports and imports in the trade of a country can only be effected through a change in relative prices (measured in gold or silver) as they exist in that country and in those with which it trades. To establish, therefore, an excess of exports over imports in the trade of the United States, in lieu of the balance the other way which now exists, prices there must be lowered in relation to prices in Europe. This may be accomplished partly by an advance in prices here not shared by the United States, as in fact has already happened in the case of some important commodities; but it is probable that the end will be reached mainly through a decline of prices on the other side. A considerable fall of general prices, however, is a remedy to which manufacturers and merchants will only submit when pushed to extremity. It will, therefore, only come when credit has been strained to the utmost, and a catastrophe is seen to be inevitable; and then it will probably come with a crash. For these reasons I should be disposed to look forward to the immediate future of American trade as a period of much disturbance and fluctuation, culminating, it is possible, from time to time in commercial crises.

In offering these remarks on the prospective character of the external commerce of the United States, I have deliberately abstained from adverting to some contingencies, and in particular to two, which can not fail, more or less seriously, to affect it—I mean the course that country may adopt with regard to Protection, as well as with regard to the redemption of her paper money. I have thus far avoided these topics, because I do not conceive that any decision she may come to with reference to either—powerfully operative as no doubt it will be on her future commercial fortunes in various directions—can possibly affect the particular issue to which the preceding remarks have been addressed. A persistent policy of Protection will, no doubt, have the effect of preventing the due expansion of her external trade in the future as it has done in the past, if it does not lead to its positive curtailment; while the adoption of free trade would as certainly tend to its rapid development, and thus greatly relieve the extreme tension of the situation. But, under all circumstances, if the United States is to remain a

solvent nation, she must contrive to send a larger value out of the country than is received into it, and this larger value can take no other form than the products of her industry. Free-trader or protectionist, therefore, an excess of exports over imports in her foreign trade, sufficient in amount to discharge her international liabilities, is a condition she can not evade.

* * * * * * * * * * *

# VI

# BULLOCK, WILLIAMS, AND TUCKER: THE BALANCE OF TRADE OF THE UNITED STATES[1]

## I. THE HISTORY OF OUR FOREIGN TRADE BALANCE FROM 1789 TO 1914

* * * * * * * * * * *

A PRELIMINARY word is necessary concerning sources of information. Statistics of international commerce always contain an element of error, and this is especially true of the only data available for the early decades of our national existence. Prior to 1821 imports admitted free of duty were not reported at all, and those subject to specific duties were reported by quantity, not value; moreover, such values as were recorded were reckoned arbitrarily at 10 or 20 per cent above the cost of the articles at their port of origin, to allow for the value gained in transportation, i.e., the freight charges and importers' profits.[2] The statistics now accepted as official for this period were made up in the Treasury Department in 1835, and are based largely on estimates and comparisons.[3] The figures for exports are more complete, though perhaps not more accurate than those for imports, as there was little check on the exporters' valuations and they are believed to have been too high. Beginning in 1821, the *Annual Reports on Commerce and Navigation* were published with greater or less regularity, and there was probably a constant improvement in the character of our commercial statistics. For many of the items, other than exports or imports of merchandise, that contribute to the international

[1] C. J. Bullock, J. H. Williams, and R. S. Tucker, "The Balance of Trade of the United States," in *Review of Economic Statistics*, July, 1919, pp. 215–238.

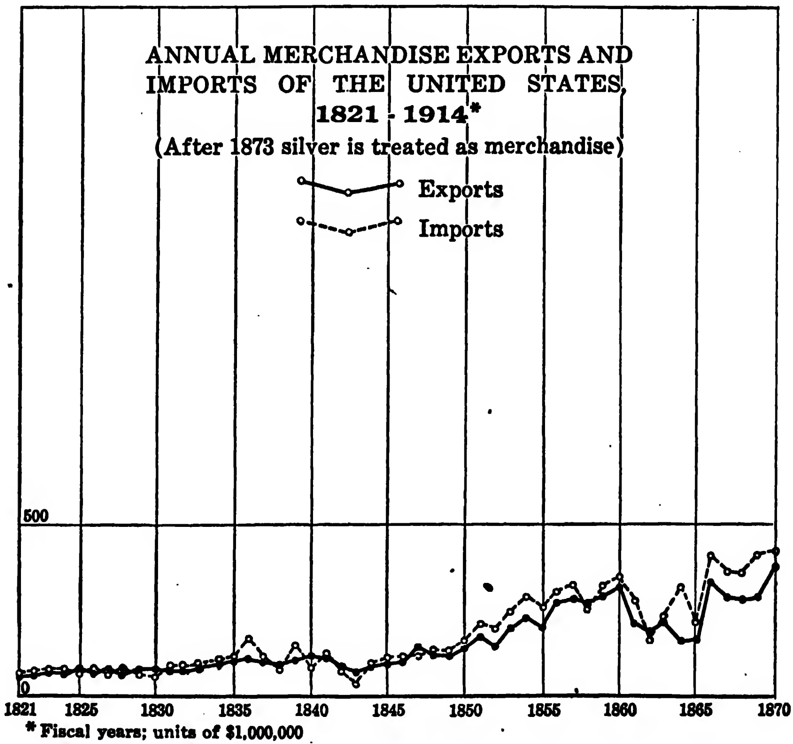
[2] Pitkin, Statistical View (1835 edition), p. 163.

[3] For the period 1790–1804 they are $154,000,000 greater than the unofficial estimate of Blodget's "Economica." See Report of Secretary of Treasury, 1835, Apps. C and D.

dealings of the United States, no official data are obtainable, and we are compelled to rely upon mere estimates that sometimes have a decidedly conjectural character. Precise computation, therefore, is impossible. The most that can be done is to demonstrate what the general tendencies have been in each epoch investigated.

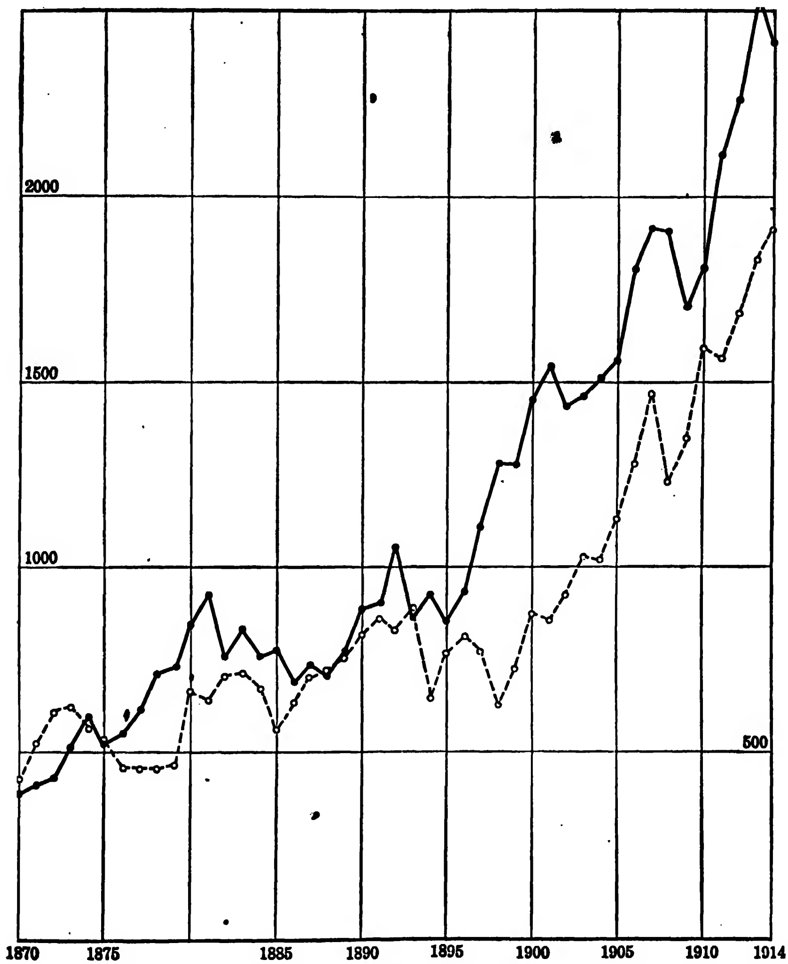
## A. FIRST PERIOD, 1789 TO 1820: EXCESS OF IMPORTS BALANCED BY PROFITS OF OUR MERCHANT MARINE

The first period that we shall study extended from 1789 to 1820. It witnessed a rapid growth of our commerce up to the year 1807,




when such events as the Embargo, Non-Intercourse Acts, and the War of 1812 affected all industry most injuriously. After the restoration of peace in 1815, a period of wild speculation, fostered by an inflation of the currency, encouraged large importations of

foreign products. These were viewed as a sign of prosperity while the "boom" lasted, but were styled an inundation of European goods as soon as the speculative fever abated. The reaction, however,




lowered prices and checked the flow of imports, which decreased rapidly from $147,000,000 in 1816 to $74,000,000 in 1820.

For the entire period of thirty-one years, the estimated imports of merchandise and specie amounted to $2,350,628,000, while

exports were placed at $1,839,000,000, an "unfavorable" balance of $512,000,000. By using different estimates we can get a balance as small as $360,000,000 or as large as $535,000,000, but the official estimate seems the most reasonable. Nor was this our only item of international indebtedness. Foreign capital was largely represented in the debt of the federal government, and had been invested in the stock of the first Bank of the United States and in other enterprises. For interest on all such investments we owed, for the entire period, a sum that is estimated at $200,000,000 or more. In spite of this immense balance against us the supply of specie in the country did not decrease, but taking the period as a whole increased considerably. Tench Coxe[1] estimated the amount on hand in 1791 at $7,000,000. Secretary Crawford[2] estimated the amount on January 1, 1820, at $20,000,000, of which $15,500,000 was held by the banks; but Gallatin, revising his figures, gave nearly as large a sum ($19,820,000) for the amount of specie in the banks alone. This is the more striking in view of the large sums said to have been sent to China and India in those years, and in view also of the redundancy of irredeemable paper during and after the War of 1812. How then was this unfavorable balance paid? Contemporaries agree that it was mainly by the earnings of our merchant marine.[3] The situation was analyzed correctly by Timothy Pitkin in 1817. He showed that a cargo of flour shipped to Spain in an American vessel would be valued at $47,500 at domestic prices, and would figure at this amount in the returns of our exports. If the flour were sold in Spain at the usual advance necessary to cover freight, insurance, commissions, and a fair profit, it might command as much as $75,000. Then, if the proceeds from the sale were invested in a return cargo that would be valued at our custom houses according to the prescribed methods, the final result of the voyage would be the importation of commodities that exceeded very greatly the value of the original exports. Therefore, he contended that, if

[1] View of the United States (1794), p. 352. See also Sumner's "Finances of the American Revolution," Vol. I, pp. 99, 100, for other contemporary estimates.

[2] "Report on Currency," in *Finance Reports*, Vol. II, p. 482.

[3] Seybert, Statistical Annals (1818), p. 281; Pitkin, Statistical View (1817), p. 246; see also Gallatin in "American State Papers, Commerce and Navigation," Vol. I, p. 643.

the imports had not shown an excess, our ships would have incurred a loss on their voyages. Moreover there was a vast trade done by American vessels between foreign ports.

The exact amount earned by our ships cannot be ascertained. Estimates vary from $450,000,000 to $800,000,000.[1] The tonnage of the ships registered for the foreign trade amounted for the entire period to 20,000,000 tons engaged in traffic for one year. Other credit items, such as the proceeds of American ships sold abroad, duties retained on reëxported goods, indemnities, and losses by foreign creditors during our financial crises, cannot be valued with any approximation to accuracy. But there is no doubt that, taken together, they did balance and more than balance the excess of imports, for, during most of the period under consideration, London exchange was at a discount in the United States, in spite of the net import of specie previously mentioned,[2] and in spite of the reduction of our foreign debt and the repayment of foreign capital invested in the first Bank of the United States.

## B. SECOND PERIOD, 1821 TO 1837: EXCESS OF IMPORTS INCREASED BY INFLOW OF FOREIGN CAPITAL

The second period in the history of our foreign trade runs from 1821 to 1837. Like the preceding it was marked by an excess of imports. During the first part of it our commerce showed no material increase over the first period, but after 1830 the volume of imports increased very greatly—from $62,720,000 in 1830 to $176,579,000 in 1836—while exports increased much less rapidly.

This was the result of an extraordinary speculative movement, which culminated in the crisis of 1837. During these years population advanced at a rapid rate, immigration became very large, and sales of public land increased greatly. The state banks were enabled to expand their note issues from $61,000,000[3] in 1830 to $103,000,000 in 1835, the notes being largely used in payment for the land occupied by settlers. Then, in 1836, the federal

[1] W. P. Sterns, in *Journal of Political Economy*, Vol. VI, p. 195.

[2] Gallatin, Considerations on Currency and Banking (1831), p. 59; Crawford, Report on Currency, App. E.

[3] The specie held by banks increased from under $20,000,000 in 1820 to over $35,000,000 in 1837. Cf. Reports of Secretary of Treasury.

government distributed $28,000,000 of surplus revenue among the states, this money finding its way into the banks, which increased their issues to $149,000,000 by the year 1837. Such an inflation of the currency raised prices and invited large importations of merchandise. For the entire period imports of merchandise aggregated $1,574,000,000 and exports were placed at $1,389,000,000, an "unfavorable" balance of $185,000,000. More than this, the movement of specie showed an excess of imports amounting to $36,714,000; so that on these two accounts the balance of importations was not less than $221,000,000. Actually it must have been considerably larger, as imports were always undervalued; moreover the official valuation of the pound sterling until 1832 was only $4.44, on which account alone some $30,000,000 must be added to the official figures of imports.[1]

The indebtedness of the country was increased still further by whatever sums were due as interest to foreign investors, but these were more than offset by new investments. Although the United States by 1835 had completely paid off its public debt, the states had begun to finance banks and public improvements, and borrowed during the period $174,000,000, of which $147,835,000 was borrowed between 1830 and 1838.[2] Part of this was simply a reinvestment of money previously invested in the federal debt; part was a reinvestment of the interest on previous investments; part was owed to domestic creditors; but the greatest part was actually a fresh flow of capital from abroad, resulting in a large inflow of goods which were paid for only in obligations, some of which unfortunately were ultimately dishonored. A committee of the House of Representatives which made its report in 1843 supposed the amount of state and city debt held abroad at that time to be $150,000,000, nearly all of which had been borrowed before 1839.[3] Foreign creditors had also invested in some of our railways, but the sums so invested are unknown. As the amount of our federal debt held by foreigners at the beginning of this period was only about $25,000,000,[4]

[1] Gallatin, in Sen. Doc. 55, 22d Cong., 1st sess., pp. 5, 21. Cf. Sterns, in *Journal of Political Economy*, Vol. VIII, p. 54.

[2] Tenth Census Report on Valuation, Taxation, and Public Indebtedness, pp. 527, 530. Of this amount $107,823,000 was borrowed after 1835.

[3] House Report 296, 27th Cong., 3d sess. (March 2, 1843), pp. 3, 7.

[4] Seybert, Statistical Annals, p. 757 (estimate for 1818).

the amount of new capital invested must have been over $125,-000,000, and the amount of interest accrued about $80,000,000. The $45,000,000 of new investments in excess of the total due for interest went part way to cancel the balance on merchandise imports. Another contribution to this end was the money brought here by immigrants, who numbered over 550,000 during these years. Fifty dollars apiece does not seem excessive, considering that these were not merely migratory laborers, but *bona fide* settlers; this would amount to $11,000,000. On the other hand there is the money spent by Americans traveling abroad, which there is no means of ascertaining. These two last items may be assumed to offset each other.

During these years many American vessels were sold abroad. Sales of 172,000 tons[1] at $50 a ton[2] give the United States a credit of over $8,000,000. For this period, however, as in the preceding one, the greatest factor in settling our foreign indebtedness was the earnings of our merchant marine. There are several possible ways of reckoning their amount; exact statistics of course are lacking. One way is to multiply the amount of registered tonnage by the average earnings per ton as stated by contemporary observers.[3] Another method is based on the amounts of imports and exports carried in American and foreign vessels: since American consumers must bear the expense of bringing merchandise to this country, the freight charges on goods brought in foreign vessels will be reckoned as an element in our international indebtedness, while the sums earned by American vessels in the import trade will be considered to have no effect upon the foreign exchanges.[4] Similarly, with our

[1] Annual Reports on Commerce and Navigation.

[2] Sterns, in *Journal of Political Economy*, Vol. VI, p. 193. Cf. Kettell, in "Eighty Years Progress," Vol. I, p. 167, who reckons values at $100 per ton at a somewhat later period.

[3] In connection with this method a deduction must be made of the amount of freight paid by Americans on goods imported into this country.

[4] Until 1832, with the exception of four years (1795–1799), the statutes required imports subject to ad valorem duties to be entered at 10 per cent above actual cost, or 20 per cent if from beyond the Cape of Good Hope. This addition would approximately cover the freight charges, if it had applied to all imports; but after 1820 other imports were valued as at place of origin. Before 1820 the value of goods not subject to ad valorem duties was not recorded, but the Treasury Department in 1835 converted the recorded quantities into values as at place of importation. In strict accuracy the freights earned by foreign vessels bringing these goods here should be separately

exports, we shall estimate that other countries are indebted to the United States for freights on goods carried in American vessels, and that cargoes shipped in foreign bottoms may be omitted from our computations. Estimates of the probable proportion between freight charges and the values of the products carried range from 10 to 15 per cent. On account of the greater bulk of our exports we may use the latter estimates for exports and the former for imports.[1] The first method of reckoning gives us, at $33\frac{1}{3}$ per ton,[2] \$206,000,000 for the balance of earnings accruing to the United States from ocean transportation; the second method gives \$176,000,000, taking no account of the earnings of American vessels in trade between foreign countries, which must have amounted to at least \$30,000,000. . . .

The outstanding features of this period then are:

(1) An excess of merchandise imports did not cause an outflow of specie.

(2) Although there was little mining of precious metals, and paper substitutes for money were in common use, the amount of specie in the country increased.

(3) The earnings of our merchant marine were insufficient to pay the balance due to foreign countries.

(4) This deficiency was remedied by the willingness of foreign capitalists to invest in American enterprises.

At the end of the period there was an unsettled balance against us, and sterling exchange was at a premium.[3]

reckoned, but that is not possible except roughly, and in view of the large element of conjecture involved in this method of reckoning freights would not be worth while. For the same reason no deduction is made to represent the earnings of American vessels bringing in goods subject to ad valorem duty between 1820 and 1832. Sterns held that the additional percentage was only enough to offset undervaluation. (*Journal of Political Economy*, Vol. VIII, p. 54.) Cf. Report of Secretary of Treasury, 1835; also Pitkin, Statistical View (1835 edition), pp. 164, 165.

[1] Cf. Sen. Doc. 55, 22d Cong., 1st sess., Vol. I, pp. 21, 29, for Gallatin's opinion.

[2] Sterns, in *Journal of Political Economy*, Vol. VIII, p. 53, and Vol. VI, p. 194. The data for these computations may be found in the "Report on Commerce and Navigation" (1878), Pt. I, pp. lxxi, 149.

[3] Trotter, Finances of American States, App. I.

## C. THIRD PERIOD, 1838 TO 1849: AN EXCESS OF EXPORTS DUE TO INTEREST PAYMENTS ON FOREIGN INDEBTEDNESS

The next period, 1838–49, differs from the years preceding in that the excess of merchandise imports that had previously been characteristic of our foreign trade was temporarily suspended. The recorded imports of merchandise aggregated $1,358,000,000, while exports were estimated at $1,392,000,000. Thus a small balance of $34,000,000 stood to the credit of the United States. At the same time imports of gold and silver had exceeded exports by $36,000,000; so that the movements of merchandise and specie had reached approximately a condition of equilibrium.

This period opened with several years of continued depression, as a consequence of the panic of 1837 and after that a second general bank suspension in 1839. It was not until 1844 that conditions began to improve and the foreign commerce of the country showed a decided increase. In 1847 the exchanges were affected greatly by the famine that followed the failure of the potato crop in Ireland. This event caused a remarkable increase in our exports of breadstuffs which rose from $7,445,000 in 1845 to $53,262,000 in 1847. The result was that our exports of merchandise exceeded imports, in the year last mentioned, by $34,317,000. Such a sudden disturbance of trade caused a net importation of specie amounting to $22,214,000. This large inflow of money altered the condition of the exchanges; so that in 1848 imports increased by $26,000,000, while exports declined more than $18,000,000, and a balance of $9,481,000 of specie was exported.

Why were our imports paid for entirely with goods or specie, instead of partly with services and securities as before? It was partly because we were able to export more, owing to the opening of communication with the West; partly because we had difficulty in borrowing abroad, and in consequence were unable to buy foreign goods as freely as in the years just preceding.[1]

The panic of 1837 had checked the growth of state debts, and by 1839 European investors were thoroughly afraid of American

[1] The high duties imposed by the Tariff Act of 1842, and especially the requirement that duties must be paid in cash, cut down imports for a few years, but in 1846 the rates were again reduced.

investments. How much capital they lost by repudiation of state debts and by the failures of those years cannot be stated;[1] but it was a long time before they again became eager to risk their money in American enterprises.[2] Nevertheless in the first two years of this period considerable sums had been invested, and toward the end confidence began to return. The value of American securities held by foreigners was between $150,000,000 and $200,000,000 at the beginning of the period, and was estimated at $222,000,000 by the Secretary of the Treasury in 1853.[3] The average for the years 1838–49 may have been $200,000,000, upon which the aggregate interest charges would amount to $144,000,000, against which must be entered the amount of new foreign investment, probably not over $40,000,000.

Upon the other hand, our merchant marine was still active on the high seas, and over four-fifths of our imports and exports were carried under the American flag. On account of ocean freights, the United States was entitled to a credit of $142,000,000 by the method of reckoning from the value of imports and exports previously described. Cargoes carried by our ships between foreign ports increased the earnings of the merchant marine; and were probably more than sufficient to balance any foreign outlays occasioned by the operations of our army during the Mexican War.[4]

Other items may be roughly estimated as follows: from the sale of ships, 123,000 tons[5] at $50 per ton equal $6,150,000; money

[1] English stockholders in the Bank of the United States lost $20,000,000 (Sumner, History of Currency, p. 152).

[2] Pearson, American Railway Builder, pp. 41, 45; Kettell, in "Eighty Years Progress," Vol. I, p. 152.

[3] Sen. Exec. Doc. 42, 33d Cong., 1st sess. (March 2, 1854), p. 2. House Report 296, 27th Cong., 3d sess. (March 2, 1843), p. 7.

[4] W. P. Sterns, in his article in the *Journal of Political Economy*, Vol. VIII, p. 53, reckons that one-fifth of American registered tonnage was engaged in the carrying trade between foreign ports in the years 1820–1840. Assuming that this was still true, the freights so earned, at $33⅓ per ton, would amount to $72,000,000 in the period 1838–1849. The excess of expenditures of the War and Navy Departments between April 1, 1846, and April 1, 1849, above the normal amounts for the three previous years was about $64,000,000. During the fiscal year 1849 there was also paid to the Mexican government some $5,500,000 under the terms of the treaty of peace. On the other hand, it is certain that a large part of these expenditures was in payment of goods and services provided by Americans, and would not affect our foreign balance, so only $25,000,000 is entered under this head on our balance sheet.

[5] Annual Report on Commerce and Navigation (1873), p. 920.

brought by immigrants, at $50 each, about $75,000,000; money spent by Americans abroad, 65,000 tourists at $1300 apiece equals [illegible],500,000; money remitted by immigrants to their families, at least $15,000,000.[1]

Although most of the figures here presented are only rough estimates, the outstanding features of this period, which distinguish it from all previous and subsequent periods in the history of our foreign trade, are certain enough; that is, that for twelve years our material imports barely equaled our material exports, an excess of merchandise exports paying for an excess of specie imports; while the earnings of our merchant marine, which had previously been brought home in the form of goods, thus swelling the volume of imports, were now required to settle our indebtedness to foreigners on account of immaterial items, especially interest.

### D. FOURTH PERIOD, 1850 TO 1873: EXCESS OF IMPORTS RESTORED BY GROWTH OF DOMESTIC GOLD PRODUCTION AND BY FURTHER INFLOW OF FOREIGN CAPITAL

The fourth period in the history of our foreign trade witnessed a return of the unfavorable balance which, but for the brief period of 1838–49 just reviewed, was the characteristic condition from the beginning of our study down to 1874. As is shown in the table on page 171, the trade balance was unfavorable in twenty-two out of the twenty-four years which comprise this period. Only in 1858 and in 1862 was there an excess of exports over imports, and in those years the excess was inconsiderable.

This period begins with the discovery of gold in California in 1850. It ends with the speculative outburst, characterized by feverish railroad expansion and large foreign borrowings, which terminated with the panic of 1873. It includes the period of the Civil War, when our foreign trade, especially the exports, was markedly restricted. It witnesses large sales of our ships, and the passing of our merchant marine as an important credit factor in our balance of international payments. These were the main features of the period;

[1] Kettell, in "Eighty Years Progress," Vol. I, pp. 243, 244. He estimates tourists' average expenditures at $1800, of which $600 was passage money, usually paid to American ship owners.

and of these the dominant ones were gold production and export, and the borrowing of foreign capital.

The merchandise trade experienced a notable growth, the annual average of the combined exports and imports being $613,000,000, as against $227,000,000 in the period 1838–49, an increase of 169 per cent. The yearly average of exports was $274,000,000, as against $116,000,000 in the preceding period; and of imports, $339,000,000, as against $113,000,000. This extraordinary increase of imports, almost threefold, was the most striking feature on the debit side of our international balance.

The accompanying table presents the annual trade balances for the period. The first four columns are for merchandise only; the last two show the net annual movement of gold and silver.[1]

As regards the merchandise trade, the most noteworthy facts shown by the table are the marked decline of exports during the Civil War and the extraordinary expansion of imports in the late sixties and early seventies. In the five-year period 1861–65 exports amounted to only $940,000,000, or but 64 per cent of the total for the preceding five years ($1,474,000,000), and 52 per cent of the total for the five years after the war ($1,605,000,000). This decrease was due entirely to the cutting off of cotton by the war. In the year ending June 30, 1860, exports of cotton amounted to $192,000,000, and in the fiscal year 1866 to $281,000,000. In the last year prior to the war cotton constituted 57 per cent of the total value of exports, and in the first year following the war, 81 per cent. But in 1861 exports of cotton shrank to $34,000,000, and in 1862 they were only $1,180,113. In none of the war years after 1861 did they amount to $10,000,000.

The expansion of imports after the war was even more striking than the preceding fall in exports. During the war the import trade had been somewhat restricted, though not markedly so except in 1862, when imports fell off $100,000,000 (from $289,000,000 in 1861 to $189,000,000 in 1862). For the whole war period imports

[1] Gold and silver are not stated separately in our foreign trade statistics prior to 1864, but in the Statistical Abstract of the United States for 1909 the annual imports and exports are estimated back to 1850. It has seemed best in this table, for the sake of consistency in comparison, to present the combined figures for the entire period. The great bulk of the exports was of gold.

UNITED STATES BALANCE OF TRADE 1850–73

(Units of $1,000,000)

| Fiscal Years | Exports | Imports | Balance: Excess of exports (+) | Balance: Excess of imports (—) | Net Movement of Gold and Silver: Excess of exports (+) | Net Movement of Gold and Silver: Excess of imports (—) |
|---|---|---|---|---|---|---|
| 1850 | 144 | 174 | —— | 29 | 2.9 | |
| 1851 | 189 | 211 | —— | 22 | 24.0 | |
| 1852 | 167 | 207 | —— | 40 | 37.2 | |
| 1853 | 203 | 264 | —— | 60 | 23.3 | |
| 1854 | 236 | 298 | —— | 62 | 34.3 | |
| 1855 | 219 | 258 | —— | 39 | 52.6 | |
| 1856 | 281 | 310 | —— | 29 | 41.5 | |
| 1857 | 294 | 348 | —— | 54 | 56.7 | |
| 1858 | 272 | 263 | 9 | —— | 33.4 | |
| 1859 | 293 | 331 | —— | 38 | 56.5 | |
| 1860 | 334 | 354 | —— | 20 | 58.0 | |
| 1861 | 220 | 289 | —— | 70 | —— | 16.5 |
| 1862 | 190 | 189 | 1 | —— | 20.5 | |
| 1863 | 204 | 243 | —— | 39 | 54.6 | |
| 1864 | 159 | 316 | —— | 158 | 92.3 | |
| 1865 | 166 | 239 | —— | 73 | 57.8 | |
| 1866 | 349 | 435 | —— | 86 | 75.3 | |
| 1867 | 295 | 396 | —— | 101 | 38.8 | |
| 1868 | 282 | 357 | —— | 75 | 79.6 | |
| 1869 | 286 | 418 | —— | 131 | 37.3 | |
| 1870 | 393 | 436 | —— | 43 | 31.7 | |
| 1871 | 443 | 520 | —— | 77 | 77.2 | |
| 1872 | 444 | 627 | —— | 182 | 66.1 | |
| 1873 | 522 | 642 | —— | 120 | 63.1 | |
| Total | 6585 | 8125 | 1541 Net Imports | | 1098.2 Net Exports | |
| Yearly Average | 274 | 339 | 64 Net Imports | | 45.8 Net Exports | |

amounted to $1,276,000,000, or 80 per cent of the total for the preceding five-year period ($1,604,000,000). Then came an extraordinary expansion. In 1866 imports amounted to $435,000,000, almost double the figure for 1865 ($239,000,000). The total for the five years 1866–70 was $2,042,000,000. In the early seventies the expansion was even more pronounced, culminating in 1873 with imports of $642,000,000, the largest amount imported in any year

prior to 1880. Taking the eight-year period 1866–73, imports amounted to $3,831,000,000, an increase of 175 per cent over the imports of the preceding eight years ($2,224,000,000), and a figure equal to 46 per cent of the imports for the twenty-four years from 1850 to 1873.

This remarkable outburst in the import trade was the result of a number of forces which combined to make the eight years following the Civil War one of the greatest "boom" periods in our history. On December 30, 1861, specie payments were suspended throughout the country; and with the act of February 25, 1862, the government began its issues of inconvertible paper currency. By January 17, 1863, the total amount authorized was $450,000,000, and on June 30, 1864, the total amount outstanding was $431,000,000. After a half-hearted attempt at contraction, by the act of April 12, 1866, under which $44,000,000 of greenbacks were retired, contraction was abandoned, and greenbacks in circulation mounted from $314,704,000 in the middle of 1869 to $346,168,000 in 1872.

Extravagant issues of inconvertible paper, combined with heavy military expenditures and the destruction of economic goods inseparable from war, caused a violent rise of prices and intensified the speculative movement. So far as high prices represented mere depreciation of paper currency, they could not stimulate imports, since foreigners did not exchange commodities for paper but received payment in gold values. It is certain, however, that the speculative mania had raised gold prices above the European level, so that the inflow of commodities was greatly stimulated. Moreover, the financial extravagance of the government was paralleled by that of the people, an additional factor in inducing large imports.

Another distinctive feature of the period was railroad expansion. Within eight years from the termination of the war the railway mileage of the United States doubled, the total increase amounting to 31,800 miles. With the extension of the railway net there was a rush of population to the West, a movement which resulted in that remarkable growth of agricultural exports which characterized the next period of our study. To provide the means for this development European capital was drawn upon in a volume enormous for the time. These borrowings consisted in part of a demand for British construction materials for our new railroads. Imports of

iron and steel railroad bars in the seven years 1866–72 amounted to 2,112,063 tons, or six times the total for the ensuing seven years (350,553 tons).

For the whole period 1850–73 the total exports of merchandise amounted to $6,585,000,000 and the imports to $8,125,000,000, giving an excess of imports of $1,541,000,000, or an average excess of $64,000,000 a year. This unfavorable balance on merchandise account was greatly reduced by our large exports of gold. Upon the opening of the California mines, our domestic gold output suddenly rose from insignificant proportions[1] to $50,000,000 in 1850, about $14,000,000 more than the annual average gold production of the world in the preceding decade. From 1851 to 1860, the aggregate production of gold in the United States was $521,000,000, which was five or six times the estimated specie circulation of the country in any year before the discoveries in California. The money in circulation in 1850, including bank notes as well as specie, was no more than $279,000,000, or about $12 *per capita*. If the new gold could have been retained in the country, our currency would have risen to $800,000,000, or $25.8 *per capita*. Such a sudden inflation as this would have raised prices far beyond the level prevailing in other parts of the world, put an end to the exportation of many products, and attracted imports from all quarters of the globe. Therefore, the new gold began to flow out of the country, after prices had been raised to a point at which the import trade could increase sufficiently to produce that result; and from 1851 to 1860 we exported a net balance of $417,608,000. By 1860, our specie circulation had risen to $228,000,000, while the issues of bank notes had grown to $207,000,000, giving the country a supply of money that averaged $13.85 *per capita*. With the suspension of specie payments in 1862 and the depreciation of the greenbacks, the outflow of gold in payment for imports was intensified. In 1864, when the premium on gold rose to the extraordinary height of $1.85[2] (July), exports of gold rose to $100,662,000, a figure not again equaled until the panic year of 1893. For the total period, 1850–73, gold exports amounted to $1,165,699,000, and imports to $203,234,000,

[1] From 1834 to 1847 the annual product had averaged less than $1,000,000. In 1848 it suddenly rose to $10,000,000, and in 1849 to $40,000,000.

[2] That is, a dollar of gold sold for $2.85 of paper.

giving a net outflow of $962,465,000, which is $40,333,000 a year. Including silver, the net outflow of specie was $1,098,200,000, or an annual average of $45,800,000. Subtracting this figure from the excess of merchandise imports previously given ($1,541,000,000), the net balance of merchandise and specie is reduced to $443,000,000, or an annual average of $18,400,000.

Against this net balance are to be charged the invisible items of indebtedness, the chief of which are freight charges and foreign borrowings. The Civil War marked the passing of our merchant fleet. From that time on, the profits of shipping, which, as we have seen, had been the chief factor in maintaining the equilibrium of our foreign exchanges, ceased to be a credit item, and became gradually an important feature of our debit account. The change is noticeable on comparing the decade of the fifties with the remainder of our period. From 1850 to 1860, exports carried in American vessels exceeded imports brought to our shores in foreign vessels by $1,329,100,000; and the freight earnings were $330,000,000 by American ships (on $2,196,300,000 exports carried) and $87,000,000 by foreign ships (on $867,200,000 imports carried), or a net credit to the United States of $243,000,000. In 1862 there began a sale of American ships which increased in the three following years. The total sales in the period 1862–65 have been estimated at $40,000,000.[1] The decline of American carrying was abrupt. From $279,083,000 of exports carried in American bottoms in 1860, the amount fell to $179,973,000 in 1861, and by 1865 it had fallen to $93,018,000. Thereafter it ranged from $150,000,000 to $200,000,000 during the remainder of the period. The total value of exports carried in American ships from 1861 to 1873 was $2,085,100,000, while imports carried in foreign vessels increased to $3,586,486,000. The freight charges earned by American ships were $313,000,000 and those owed to foreign shipping were $359,000,000. For the first time in our history as a nation, we had a net debit on freight account, amounting to $46,000,000 for the thirteen years ending in 1873. Regarding the period 1850–73 as a whole, and taking into account the $65,000,000 received for ships sold as well as the earnings of

[1] Bates, American Marine, p. 150. Of 1,298,000 tons sold in 1850–1873, 825,000 were sold in 1862–1865.

our ships in the fifties, we arrive at a net sum of $262,000,000 receivable by the United States.

If we sum up the net balances of merchandise, specie, and shipping earnings, we find a total on the debit side of our balance of payments amounting to $181,000,000. We turn now to the borrowings of foreign capital and the payments of interest. Foreign investments in the United States were estimated at $222,000,000 by the Secretary of the Treasury in 1853.[1] By 1860 they were estimated, also by the Secretary of the Treasury, at $400,000,000.[2] At the outbreak of war in 1861 great distrust in the future of the United States was felt by foreigners, and there was a considerable return of American securities in 1861–63,[3] amounting to about $200,000,000. But for the next ten years the movement of capital turned in the other direction. The federal government had incurred an interest-bearing debt of $2,381,000,000, and state and local indebtedness had increased by some $500,000,000. By 1868, according to *Hunt's Merchant's Magazine*, $700,000,000 of United States bonds were held abroad, and these had not netted the American sellers more than 57½ per cent.[4] Secretary McCulloch estimated the foreign investments, exclusive of railway stocks, at $850,000,000. All together the amount of American securities held abroad was estimated at $938,000,000,[5] part of which Europe had bought at a discount. In the later sixties and early seventies occurred the great expansion of railroads already referred to, when 39,642 miles were constructed, with the aid of a large inflow of foreign capital. In 1869, David A. Wells put the total foreign investments of all sorts at $1,400,000,000. Even if this estimate was too large in 1869, it is certain that not less than $1,500,000,000[6] of foreign investments had been made by 1873; because the inflow of capital had been very rapid in the interval, amounting to $100,000,000 in the first eight months of the latter year. From the figures given it appears

[1] House Report 296, 27th Cong., 3d sess. (March 2, 1843), p. 7.

[2] *Hunt's Merchant's Magazine*, October, 1868, p. 242.

[3] David A. Wells, Report of Special Commissioner of the Revenue, 1869, p. xxvi.

[4] October, 1868, p. 245. This is perhaps an excessive estimate of the depreciation of the whole volume of securities.

[5] *Hunt's Merchant's Magazine*, October, 1868, p. 245.

[6] *Commercial and Financial Chronicle*, February 24, 1872.

that the net sum invested during the period 1850–73 was $1,300,-000,000 in nominal value, representing an actual value of perhaps $300,000,000 to $400,000,000 less.

Against this sum is chargeable the annual payments of interest. This item can be only roughly approximated. In the early fifties, on about $220,000,000 of foreign capital, interest at 6 per cent amounted to $13,200,000 a year. By 1855, when the total of foreign capital was estimated at $364,000,000,[1] it may have been about $22,000,000; and in 1860 on foreign capital of $400,000,000, it was about $24,000,000. When foreign securities were returned in 1861–63 it must have sunk to $10,000,000. In 1869, Wells estimated interest at $88,000,000; and on $1,500,000,000 in the early seventies it must have been about $90,000,000. These heavy payments, however, occurred only in the last six or eight years of the period. For the whole period the total interest charges may be estimated at $904,000,000.[2]

Other items of the balance are of minor importance, and data are lacking regarding their amount. For the most important one, tourists' expenditures, some figures are available. They were estimated at the beginning of the period at more than $15,000,000 a year.[3] And in 1869 they were estimated by David A. Wells at $37,000,000 a year.[4] This increase, however, could not have

[1] *Hunt's Merchant's Magazine*, December, 1857, p. 664.

[2] This is estimated as follows. During the eleven years 1850–1860, inclusive, the annual interest charge increased from about $13,000,000 to $24,000,000 and averaged about $18,500,000. This gives a total of $203,000,000 for these eleven years. After sinking to $10,000,000 in 1861 the annual charge increased to $88,000,000 in 1869, which gives an average charge of $49,000,000 during these nine years and a total of $441,000,000. This figure, however, is excessive because the bulk of the new capital came here after 1864. To allow for this fact we may decrease the estimate for the period by $100,000,000, thus reaching the figure of $341,000,000 for the nine years ending in 1869. From 1870 to 1873, inclusive, the annual charge averaged about $90,000,000, or $360,000,000 for the four years. The total thus computed is $904,000,000 for the twenty-four years.

[3] Kettell, Eighty Years Progress, Vol. I, p. 244.

[4] Report of Special Commissioner of the Revenue (1869), p. xxxi. He deducts $12,000,000 for the expenditures of foreigners in this country, reckoning $1000 apiece for both classes of tourists. The total number of American citizens returning from abroad in 1850–1873 was 735,000. The total number of aliens not immigrants, i.e. foreign tourists arriving in 1850–1873, was about 157,000.

occurred prior to or during the war; and for the whole period, it is probable that the balance on this account did not average more than $24,000,000 a year, which gives a total of $576,000,000. There were some 6,600,000 immigrants admitted in this period. . . .

### E. FIFTH PERIOD, 1874 TO 1895: EXCESS OF EXPORTS DEFINITELY REËSTABLISHED BY GROWTH OF INTEREST CHARGES ON FOREIGN INDEBTEDNESS

. . . The crisis of 1873 was world-wide. It began in May with a panic in Vienna, extended to Germany and England, and in September broke out in New York. European lending ceased, railroad construction was halted, prices fell to a point where imports must diminish and exports expand. In 1874, for the first time since 1862, exports exceeded imports.[1] Before 1874 the balance of trade had been generally unfavorable; from that year on, the balance has been favorable except in three years, 1875, 1888, and 1893.[2] The year thus marks a turning point in our foreign trade.

The table on page 178 shows the annual trade balances for the period 1874–95. Silver is included with merchandise; the gold balance is stated separately.

Before examining the balances for the whole period, attention is called to the late seventies and early eighties. The first column shows an extraordinary expansion of the exports. From 1875 to 1881 exports expanded $353,505,000, or 63 per cent. For the six years 1876–81 the excess of exports over imports totaled $1,234,406,000 and averaged $205,734,000. The total excess was about one-half of the total for the entire period 1874–95, and the average almost three times that of the other sixteen years.[3]

[1] (These figures are for merchandise only.)

| | Exports | Imports | Balance |
|---|---|---|---|
| 1873 . . . . . . . | $522,480,000 | $642,136,000 | − $119,656,000 |
| 1874 . . . . . . . | 586,283,000 | 567,406,000 | + 18,877,000 |

[2] Excluding silver, the balance was also unfavorable in 1889, by $2,730,277

[3]

| | |
|---|---|
| Total excess of exports 1874–1895 . . . . . . . . . . | $2,492,751,000 |
| Total excess of exports 1876–1881 . . . . . . . . . | 1,234,406,000 |
| Total excess of exports for the other 16 yrs. . . . . | 1,258,345,000 |
| Average excess of exports 1874–1895 . . . . . . . . | 113,307,000 |
| Average excess of exports 1876–1881 . . . . . . . . | 205,734,000 |
| Average excess of exports for the other 16 yrs. . . . | 78,647,000 |

UNITED STATES BALANCE OF TRADE, 1874–95

(Units of $1,000,000)

| Fiscal Years † | Exports * | Imports * | Balance | | Net Movement of Gold | |
|---|---|---|---|---|---|---|
| | | | Excess of exports (+) | Excess of imports (−) | Excess of exports ( ) | Excess of imports (−) |
| 1874 | 619 | 576 | 43 | — | 14.5 | |
| 1875 | 539 | 540 | — | 2 | 53.3 | |
| 1876 | 566 | 469 | 97 | — | 23.2 | |
| 1877 | 632 | 466 | 166 | — | .3 | |
| 1878 | 719 | 454 | 266 | — | — | 4.1 |
| 1879 | 731 | 460 | 270 | — | — | 1.0 |
| 1880 | 849 | 680 | 169 | — | — | 77.1 |
| 1881 | 919 | 653 | 266 | — | — | 97.5 |
| 1882 | 767 | 733 | 35 | — | — | 1.8 |
| 1883 | 844 | 734 | 110 | — | — | 6.1 |
| 1884 | 767 | 682 | 84 | — | 18.3 | |
| 1885 | 776 | 594 | 182 | — | — | 18.2 |
| 1886 | 709 | 653 | 55 | — | 22.2 | |
| 1887 | 742 | 710 | 33 | — | — | 33.2 |
| 1888 | 724 | 739 | — | 15 | — | 24.6 |
| 1889 | 779 | 764 | 15 | — | 49.7 | |
| 1890 | 893 | 810 | 82 | — | 4.3 | |
| 1891 | 907 | 863 | 44 | — | 68.1 | |
| 1892 | 1063 | 847 | 216 | — | .5 | |
| 1893 | 888 | 890 | — | 1 | 87.5 | |
| 1894 | 943 | 668 | 274 | — | 4.5 | |
| 1895 | 855 | 752 | 103 | — | 30.1 | |
| Total | 17231 | 14738 | 2493 Net Exports | | 111.9 Net Exports | |
| Yearly Average | 783 | 670 | 113 Net Exports | | 5.1 Net Exports | |

* These figures include exports and imports of silver.
† July 1 to June 30.

These large balances were due mainly to the unprecedented expansion of agricultural exports, which at that period comprised from three-fourths to four-fifths of the total. The expansion was particularly marked in 1880 and 1881. In the summer of 1879 harvest failures in Europe, together with good crops at home, enabled our farmers to export unprecedented quantities of breadstuffs and other products at high prices. Exports of wheat and wheat flour increased 162 per cent from 1875 to 1881; exports of meat and meat products

doubled; exports of cotton increased 30 per cent; agricultural exports as a whole about doubled.[1]

These heavy exports induced a large net inflow of gold, totaling $183,544,000 from 1878 to 1884. Of this, $174,585,000 came in 1880 and 1881, the years when exports reached their highest level prior to 1890. The gold imports insured the successful maintenance of specie payments, resumed in 1879. Coming in such a heavy stream into a gold-producing country, normally an exporter of gold, they indicate beyond question that in the years when exports were largest and the trade balance most favorable, 1879–81, the United States had a surplus of credits on all international transactions. The demand for our exports, combined with new capital borrowings in this period, was so large as more than to offset the total outgoings for imports plus invisible items of indebtedness.

These years were of course exceptional. In general, the more modest favorable balances characteristic of the period 1874–95 served for the payment of our indebtedness on the various invisible items of international exchange. Summing up the figures of merchandise trade for the period, exports amounted to $17,231,064,000, as against $14,738,313,000 of imports, leaving an excess of exports of $2,492,751,000, or an average excess of $113,307,000, merchandise and silver. The normal flow of gold was outward, but moderate; the total excess of exports being $111,903,000, or an average of $5,087,000 a year. The total excess of exports of merchandise and specie was $2,604,654,000, an average of $118,394,000 a year. It is this amount, plus new foreign capital invested in this period, against which the items of invisible indebtedness are chargeable.

The chief item of indebtedness was the payment of interest charges on foreign capital. To approximate the amount of these payments we must follow the course of the investment account, as indicated by international financial conditions, by the cyclical movement of business, and by such statistical estimates as appear reliable. The *Commercial and Financial Chronicle* of May 18, 1872, estimated

| | (In thousands of dollars) | | |
|---|---|---|---|
| | 1875 | 1881 | Increase |
| [1] Exports of wheat and wheat flour | 82,320 | 212,746 | 130,426 |
| Exports of meat and meat products | 67,955 | 134,254 | 66,299 |
| Exports of cotton | 190,639 | 247,696 | 57,057 |
| All agricultural exports | 389,410 | 738,124 | 348,714 |

the total of American securities held in Europe to be $1,500,000,000. This estimate agrees with that of David A. Wells, and may be taken as an approximately accurate statement of the foreign investments at the time of the panic of 1873. During the period of depression succeeding the crisis, there was a considerable return of securities from Europe, the withdrawals amounting in 1876–78 to $300,000,000, of which $150,000,000 pertain to the year 1878.[1] In 1879, as already noted, occurred the revival and the marked expansion of agricultural exports. Prosperity among the farmers and the grain carrying railroads made business brisk for merchants and manufacturers of raw materials. Railroad construction began afresh, 28,253 miles of new road being built in the three years 1880–82. Though the favorable reaction was felt more in the United States than in Europe, the railroad boom soon attracted foreign capital,[2] as had that preceding 1873. By 1883 United States railroad securities quoted in London amounted to $1,535,000,000;[3] adding federal and state bonds, municipal securities, land, mining, and industrial stocks, the total of foreign investments could not have been less than $2,000,000,000. In the last half of 1881 the tide turned. The crops of that year represented a loss of two hundred million bushels of wheat, five hundred million bushels of corn, and over a million bales of cotton. The immoderate railroad construction, the feature of which was the paralleling of old established lines, ended in a prolonged period of liquidation, which reached its low point in 1884. Rate cutting and rate wars became the distinctive feature of the industrial situation. From July, 1882, to July, 1885, there was a reversal of the security movement, similar to that following the panic of 1873, though much smaller in volume. From bankers' records, the *Chronicle* computed an average withdrawal of capital of $25,000,000 a year.[4] Statistical indices of the volume of business show 1885 to have been the dullest year of the decade. Then came a revival, so prompt that the *Chronicle* declared 1886 to be the best business year since 1880.[5] Rapid railway construction began again,

[1] Data furnished by F. D. Graham, Rutgers College.

[2] See C. K. Hobson, The Export of Capital, p. 147.

[3] Sir George Paish, Trade Balance of the United States, p. 173. National Monetary Commission, 1910.

[4] *Commercial and Financial Chronicle*, Vol. LX, Part 2, p. 633.

[5] See W. C. Mitchell, Business Cycles, p. 46.

the annual increase of mileage rising from 2,975 miles in 1885 to 12,876 in 1887. This expansion in United States railroads coincided with a great wave of British investments. Following the gold and diamond discoveries in South Africa, in 1884–85, there developed a mining boom, and then a whole series of speculative undertakings in other countries, notably Australia, Argentina, and the United States.[1] England had entered upon a period of active prosperity. Accumulations of capital came forward freely for investment. British promoters started a series of new companies. Beginning at home with the conversion of private enterprises into joint stock companies, they soon undertook similar enterprises in Germany, Austria, Argentina, and the United States.[2] Trust and investment companies were formed to underwrite, and speculate in, the stocks of other companies. Large amounts of American railway securities were placed in England. Also, London caught the infection of the American "silver boom," and purchased large blocks of silver stock, in the hope that the Sherman Silver Purchase Act of 1890 would enhance the value of the white metal.

Then came a sharp reaction. Most heavily of all, British capital had been pouring into Argentina. In November, 1890, the Argentine government announced its inability to meet interest payments. Baring Brothers, of London, were forced to close their doors. There developed a critical situation in England, and New York dealers were daily receiving heavy selling orders from London. Gold exports were heavy. The New York banks held less than the legal 25 percent reserves in eleven out of the twenty weeks from the middle of August to the end of the year. Call loan rates rose frequently to 6 per cent per annum, plus one-half per cent a day. From January to July, 1891, sterling exchange in New York stood almost continuously at the gold export point. By the phenomenal harvests and exports[3] of 1892 a crisis was deferred until 1893.

From the fall of 1890 to the end of 1896, the net security movement was heavily against the United States, the net annual withdrawal averaging $60,000,000,[4] or a total of about $300,000,000.

[1] C. K. Hobson, The Export of Capital, pp. 147 et seq.
[2] W. C. Mitchell, Business Cycles, p. 47.
[3] Exports touched a new high-water mark in 1892: $1,063,088,000.
[4] *Commercial and Financial Chronicle*, Vol. LX, Part 2, p. 632.

With foreign capital at about $2,000,000,000 in 1883, a figure reduced by about $100,000,000 by the end of 1885, the heavy inflow of the late eighties must have brought the total to almost $3,000,000,000. Allowing for the later withdrawals, the amount of foreign investments in 1895, the end of our period, was about $2,500,000,000. That a smaller figure is out of the question is shown by the careful investigation of N. T. Bacon for the year 1899.[1]

From the figures given for foreign capital we may estimate the interest payments. The rate of interest decreased from 6 to about 4 per cent as the years passed. Wells' estimate of the interest charge for 1869 was $80,000,000. By 1878, in consequence of the withdrawals of capital, the interest had fallen to not more than $60,000,000; by 1883 it had risen to over $80,000,000; in 1890 it may have been $110,000,000. Several estimates of the interest charge were made in 1895; they range from $90,000,000 to $100,000,000. The most careful investigation is that of the *Journal of Commerce*, which puts the interest charge at $90,000,000.[2] For the whole period, 1874–95, the average interest charge thus appears to have been about $85,000,000 a year, or a total of $1,870,000,000. If we deduct $1,000,000,000 of new foreign investments made within the period, the net outgoings on account of foreign investments were $870,000,000, or an average of about $39,500,000 a year.

The excess of the annual interest charge over new annual investments is the chief item of "invisible" indebtedness which was annually paid off by the excess of merchandise exports. The other items now require consideration.

Our foreign merchant marine showed a continual decline during the period, so that imports brought in foreign vessels exceeded exports carried in American ships by $8,759,703,000. The freight charge upon this sum constitutes the net amount payable by America for the use of foreign ocean carriers. Estimates vary as to the proportion which freight charges bear to the value of cargo. Bates[3] puts

[1] *Yale Review*, November, 1900, pp. 265–285.

[2] *New York Journal of Commerce and Commercial Bulletin*, July 8, 1895. See too the Commercial Year Book, 1896, pp. 225 et seq.; *Commercial and Financial Chronicle*, Vol. LX, Part 2, p. 770; and A. S. Heidelbach in the *Forum*, February, 1895, p. 647.

[3] W. W. Bates, American Marine; The Shipping Question in History and Politics (1893), p. 20.

the percentage at 15 per cent in the case of exports and 10 per cent for imports. Coming from a former United States Commissioner of Navigation and a former manager of the *Inland Lloyd's Register*, this statement is entitled to careful consideration. Using Bates' figures, we should have for the whole period $1,107,193,000 as the earnings of foreign vessels in the import trade, and $346,834,200 as the earnings of American vessels in the export trade,[1] or a net debit on freight account of $760,359,000, which represents a yearly average of about $34,562,000. It is probable, however, that this figure should be considerably reduced. In the first place, it makes no allowance for expenses of foreign vessels in American ports. Moreover, the percentages of 10 per cent and 15 per cent, though probably correct for earlier periods, take no account of the very marked reduction in ocean freight rates after 1870. C. K. Hobson's freight index[2] for Great Britain shows a decline from 248.2 in 1873 to 88.2 in 1896. In other words, freight rates to and from Great Britain declined about 64 per cent. The British Board of Trade index, begun in 1884, shows a decline from 116.2 in 1884 to 75.3 in 1895. The New York to Liverpool wheat rate decreased from eight and seven-sixteenths pence in 1875 to two and nine-sixteenths pence in 1895, a decrease of 61 per cent.[3] The average export price of wheat in New York in 1896 was $.65 per bushel. The percentage of the ocean freight rate to the value was thus 7.7 per cent. For cargoes combining small bulk with high value the rate would be less.

In view of this striking decrease in rates, the statement that freight costs equaled 10 per cent and 15 per cent of the value of imports and exports respectively, if acceptable for the early seventies,

[1] Exports in American ships, 1874–1895, were $2,312,228,000; imports in foreign ships were $11,071,930,000.

[2] See "The Export of Capital," p. 182. Hobson has constructed for the period 1870–1912, for Great Britain, an index of outward freights, an index of inward freights, and from these two a mean index. The outward index is based on six quotations for each of twenty-two selected routes. The inward index is the mean between wheat rates on four different ocean routes: three of these rates are averages of six rates in each year; the fourth is the New York to Liverpool rate, given in the Statistical Abstract of the United States. The other data are from Mitchell's *Marine Register* and *Lloyd's Shipping Gazette*. Hobson's "inward" index shows a decline from 329 in 1873 to 78.5 in 1895; the outward index declines from 167.3 in 1873 to 98 in 1896.

[3] Statistical Abstract of the United States, 1916, p. 318.

appears too high for the nineties. In this computation of the United States balance of payments for the fiscal years 1908–09, Sir George Paish estimated that, on $1,000,000,000 excess of imports in foreign vessels over exports in American vessels, the net amount of freight payable by the United States, after allowing for port expenses, was $25,000,000, or 2.5 per cent of the value carried. A computation made in 1895 by the New York *Journal of Commerce*, based on ocean rates for sixteen imported commodities, showed the average ratio of freight to value of goods to be 3.6 per cent.[1]

From the evidence given, it is estimated that the ratio of freight charges to value of goods carried during the period 1874–95 decreased from about 12 to about 5 per cent, and for the whole period averaged 8 per cent. On this basis the balance owed on account of freight charges would amount to $700,776,000, or an average of $31,854,000. Deducting one-fifth for expenses in port, a heavy item which has been estimated as high as one-third of gross freight earnings,[2] we obtain for the gains of American vessels $148,000,000; for those of foreign vessels $708,000,000; making a net indebtedness of $560,000,000, or $25,500,000 a year.

A third invisible item of indebtedness was the expenditure of American tourists abroad. At the beginning of the period such expenditures were estimated at $37,000,000. For the year 1894, we have the computation of the New York *Journal of Commerce*. This computation, which is based on an examination of actual records of letters of credit issued in New York and other cities, shows the following results:

TRAVELERS' CREDITS, 1894

| | |
|---|---|
| Letters of credit issued per annum by big New York issuers | $55,000,000 |
| Minor issues in New York | 2,000,000 |
| Issued directly in other cities | 3,000,000 |
| Year's total for United States, about | $60,000,000 |
| Average of credits issued and not used | 22 per cent |
| Net amount transferred to other countries, about | $47,000,000 |

[1] New York *Journal of Commerce and Commercial Bulletin*, July 8, 1895; for the year 1892 it computes the net indebtedness of the United States on freight account, without deducting port expenses, as $22,877,00.

[2] Ibid. See, too, C. K. Hobson, The Export of Capital, p. 177.

These figures would be somewhat reduced by European letters of credit expended in America. As an average for the whole period, the net tourists' expenditures probably did not exceed $35,000,000 a year.

These were the chief items of indebtedness. For immigrants' remittances, an item which in the last period before the Great War came to occupy a position of major importance, there are few data available. It is probable that they were not very large prior to the late nineties. The number of immigrants in the period 1901–10 was about as large as that from 1881 to 1900. Moreover, the immigrants were mainly from northern Europe in the earlier period; and such computations as have been made show that the great bulk of immigrants' remittances comes from the Italians and others from southern Europe. International money orders issued in the United States, which are sometimes used as a rough guide in estimating immigrants' remittances, did not exceed $10,000,000 a year prior to 1888, and for most years averaged $6,000,000 to $7,000,000.[1] For immigrants' remittances, and other miscellaneous items of debit, we may allow an average sum of $20,000,000 a year.

* * * * * * * * * * *

As a picture of our international situation at the end of the period, we present a balance of payments for the year 1894, the year for which the most complete and reliable estimates are available:

THE BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, 1894 *

(Units of $1,000)

| | | |
|---|---|---|
| **Credit** | | |
| 1. Exports † | $942,591 | |
| 2. Exports of gold | 76,978 | |
| 3. New capital borrowings | nil | |
| | | $1,019,569 |
| **Debit** | | |
| 1. Imports † | $668,281 | |
| 2. Imports of gold | 72,449 | |
| 3. Securities returned from Europe | 60,000 | |
| 4. Interest payments | 95,000 | |
| 5. Net freight payments | 22,877 | |
| 6. Tourists' expenditures | 47,000 | |
| 7. Immigrants' remittances and other items | 40,000 | |
| | | $1,005,607 |

* Fiscal year, July 1, 1893–June 30, 1894. † Merchandise and silver.

[1] Statistical Abstract of the United States, 1916, p. 726.

### F. SIXTH PERIOD, 1896 TO 1914: EXCESS OF EXPORTS INCREASED BY TOURISTS' EXPENDITURES AND IMMIGRANTS' REMITTANCES

During the last period prior to the Great War the balance of international payments was, in its essential characteristics, similar to that of the period just reviewed. The main difference was that the "favorable" trade balance was larger; the average excess of exports, which in the earlier period was about $113,000,000, became for the later period about $487,000,000. This increase was due in some measure to the increase in the annual interest charge on foreign capital; to a greater extent it was due to the extraordinary growth of tourists' expenditures and immigrants' remittances.

The following table shows the annual balance of merchandise trade and the net annual gold movement for the period.

The table shows for the whole period exports of $32,182,126,000 and imports of $22,866,028,000, leaving a favorable trade balance of $9,262,098,000, or an average of $487,479,000 a year. The most notable fact, as regards merchandise and silver, is the extraordinary growth of the balance in the late nineties. From $134,647,000 in 1896, a balance about $13,000,000 larger than that of the average of the preceding twenty-two years and about $32,000,000 larger than that of the preceding year, the balance increased to about $640,000,000 in 1898. This balance was exceeded, prior to the war, only by those of 1901, 1908, and 1913; it was due in part to a diminution of imports, but mainly to the marked and sudden expansion of exports. Exports increased from about $943,000,000 in 1896 to about $1,287,000,000 in 1898, and by 1901 had reached $1,552,000,000.

The late nineties mark a change in the character of our exports. In foreign trade, the year 1895 was the low-water mark of the depression following the panic of 1893. In 1896 there was an increase of about $83,000,000 in exports and of about $48,000,000 in imports, despite the fact that, in general business, conditions were almost as depressed as in 1894. In July, 1897, the trend of prices, downward after 1873, reached its lowest point. The increase in exports in 1896 was mainly in manufactures; it was the beginning of an extraordinary expansion in this branch of exports. Wages were

UNITED STATES BALANCE OF TRADE, 1896–1914

(Units of $1,000,000)

| Fiscal Years † | Exports * | Imports * | Balance | | Net Movement of Gold | |
|---|---|---|---|---|---|---|
| | | | Excess of exports (+) | Excess of imports (—) | Excess of exports (+) | Excess of imports (—) |
| 1896 | 943 | 809 | 135 | —— | 78.9 | |
| 1897 | 1113 | 795 | 318 | —— | —— | 44.7 |
| 1898 | 1287 | 647 | 640 | —— | —— | 105.0 |
| 1899 | 1283 | 728 | 556 | —— | —— | 51.4 |
| 1900 | 1451 | 885 | 566 | —— | 3.7 | |
| 1901 | 1552 | 860 | 692 | —— | —— | 12.9 |
| 1902 | 1431 | 932 | 500 | —— | —— | 3.5 |
| 1903 | 1464 | 1050 | 415 | —— | 2.1 | |
| 1904 | 1510 | 1019 | 491 | —— | —— | 17.6 |
| 1905 | 1567 | 1145 | 422 | —— | 38.9 | |
| 1906 | 1810 | 1271 | 539 | —— | —— | 57.6 |
| 1907 | 1938 | 1477 | 460 | —— | —— | 63.1 |
| 1908 | 1919 | 1239 | 680 | —— | —— | 75.9 |
| 1909 | 1719 | 1356 | 363 | —— | 47.5 | |
| 1910 | 1800 | 1602 | 198 | —— | 75.2 | |
| 1911 | 2114 | 1573 | 541 | —— | —— | 51.1 |
| 1912 | 2269 | 1700 | 569 | —— | 8.4 | |
| 1913 | 2537 | 1854 | 683 | —— | 8.6 | |
| 1914 | 2420 | 1924 | 495 | —— | 45.5 | |
| Total | 32128 | 22866 | 9262 Net Exports | | 173.9 Net Exports | |
| Yearly Average | 1691 | 1203 | 487 Net Exports | | 9.2 Net Exports | |

* These figures include exports and imports of silver.
† July 1 to June 30.

low and material abundant, but the depression of prices after 1893 and the sluggishness of the home market had caused stocks to pile up. This was a condition ideal for export. We began to sell manufactured products not merely in the neutral markets but in Continental Europe. Exports of manufactures increased from $206,-000,000 in 1895 to $258,000,000 in 1896. Exports of iron and steel goods increased 28 per cent. Then in 1897 began an enormous outburst of exports, to which both manufacturers and agricultural products contributed. In November, 1896, the Indian wheat crop failed.

In 1897 the European wheat crop fell short of 1896 by 350,000,000 bushels—a loss of 30 per cent,[1] while the crop in the United States ran 103,000,000 bushels ahead of 1896. Exports of wheat and wheat flour increased from $92,000,000 in 1896 to $116,000,000 in 1897, and reached their high point in 1898, at $215,000,000.[2] Even more extraordinary was the expansion of exports of manufactures. From $258,000,000 in 1896 they increased to $311,000,000 in 1897, $324,528,000 in 1898, $380,000,000 in 1899, and $485,022,000 in 1900.[3] In 1892, manufactures constituted 18 per cent of total exports, in 1895 25 per cent, in 1900 35 per cent.[4] Exports of iron and steel products rose from $32,000,000 in 1895 to $122,000,000 in 1900.[5] It was at this time, and because of our exports of manufactures, that there arose in Europe the agitation against the "American invasion."

In the late nineties the United States balance of international payments was truly "favorable." The situation was strikingly parallel to that of 1879–81, already reviewed. In both cases, our exports were so large as to more than equal the total of indebtedness on account of the imports plus the invisible items of the balance. No other explanation can account for the very large and continuous net inflow of gold, sustained over several years, which occurred in these periods. The table on page 228 shows a heavy net gold import in 1897, 1898, and 1899, amounting in all to $201,072,000. As in the earlier period the large imports of gold made possible the resumption of specie payments, so these gold imports of the late nineties insured the success of the Gold Standard Act in 1900. This act, besides requiring the establishment of a fund of $150,000,000 of gold to insure redemption of the notes of the government, created a new demand for cash reserves by the facilities which it gave for the establishment of new national banks. The increase of government paper money, except certificates against deposited gold or silver, having been stopped in 1893 by the repeal of the Silver Purchase Act, the new demand for reserve money was largely dependent on imported gold.[6]

[1] Year-book for 1898, U.S. Department of Agriculture, p. 686.
[2] Statistical Abstract of the United States, 1916, p. 685.
[3] Ibid. p. 695. [4] Ibid. [5] Ibid. p. 713.
[6] See A. D. Noyes, Forty Years of American Finance, p. 272.

In general, the gold movement in the period 1896–1914 was erratic, years of net gold imports alternating with years of net gold exports. In almost every instance, the inward movement occurred in years when merchandise exports were unusually large. This was notably the case in 1906–08, and again in 1911. The total for the whole period shows that the United States not only retained the annual product of its mines, amounting to $1,574,499,000,[1] but had a net import of $173,902,000. This large increase of our gold supply was, in the opinion of most economists, a major cause of the rising trend of prices after 1896.

To sum up the account of merchandise and specie, this period began with an extraordinary expansion of exports, raising the balance of trade to a new level, which has since been pretty consistently maintained. For the whole period the net excess of exports of merchandise and specie was $9,088,196,000, or an annual average of $478,326,000. Against this amount are to be charged the invisible items. As has been said, the main features of our balance of payments on its debit side were first, the increase of the annual interest charge, and second—and most important for this period—the striking growth of tourists' expenditures and immigrants' remittances. Since for all of these items more and better data are available for this period than for those preceding, a narrative of the course of investment and of other international currents is less necessary. We may confine ourselves to a summary analysis of the data at hand.

In 1899, Mr. N. T. Bacon[2] made a first hand study of foreign investments in the United States. His investigation was made in New York, London, Paris, Amsterdam, Frankfurt, and other cities, and with the aid of J. P. Morgan & Co. and other bankers on this side, and of leading European financiers. Mr. Bacon found that the vast mass of foreign investments was in railroad securities. Foreigners had virtually none of our industrial securities, or of our state, county, or municipal bonds. Only infinitesimal amounts of the capital of our national and state banks were owned abroad, except as held by Americans resident in Europe. The amount of foreign capital in real estate mortgages was also small. Prior to

[1] Statistical Abstract of the United States, 1916, p. 711.
[2] *Yale Review*, November, 1900, pp. 265–285.

1893 there had been large investments of this nature, made chiefly through the Lombard Investment Company and similar corporations, but during the panic of 1893 many of these companies were forced into liquidation by the marked shrinkage in the value of farm lands, and British capital in real estate was mostly withdrawn. There were also considerable sales of Dutch real estate holdings. Mr. Bacon's summary statement of our foreign indebtedness on investment account, as of January 1, 1899, is as follows:[1]

| | Cr. | Dr. |
|---|---|---|
| To Great Britain | | $2,500,000,000 |
| To Holland | | 240,000,000 |
| To Germany | | 200,000,000 |
| To rest of Europe | | 160,000,000 |
| To Cuba | | 30,000,000 |
| To rest of America and China | | 15,000,000 |
| To life insurance | | 185,000,000 |
| From Europe | $10,000,000 | |
| From Canada | 150,000,000 | |
| From Mexico | 185,000,000 | |
| From Cuba | 50,000,000 | |
| From rest of America | 55,000,000 | |
| From Pacific, China, and Japan | 5,000,000 | |
| From life insurance guarantee investments | 45,000,000 | |
| Totals | $500,000,000 | $3,330,000,000 |
| Net indebtedness | | 2,830,000,000 |

Foreign investments in the United States amounted to $3,330,000,000 and American investments abroad to $500,000,000, leaving a net indebtedness of $2,830,000,000. American investments abroad were insignificant until the late nineties. In 1900, the year after Mr. Bacon's investigation was made, there was a marked influx of English, Swedish, and German loans. From July to November they amounted to $60,000,000;[2] in the twelve months after March 1900, to no less than $118,000,000. It is probable, however, that even in this year the net capital movement was toward the United States, rather than away from it.

[1] *Yale Review*, November, 1900, p. 276.
[2] Ibid. p. 285.

Later investigations leave no doubt that for the whole period 1896–1914 the net flow of capital investment was decidedly into the United States. At the end of 1908 the securities of American railways quoted in the London Stock Exchange "official list" were of the nominal value of $7,500,000,000. Besides these there were a large number of American industrial and other securities quoted in London which brought the total to over $9,000,000,000.[1] Of this vast amount only a portion was held in Great Britain. According to Sir George Paish in his study for the United States National Monetary Commission of 1910, Great Britain possessed about $3,500,000,000 of American securities, Germany $750,000,000, Holland $750,000,000, and France $500,000,000. In the aggregate, he puts the amount of European capital invested in permanent securities in the United States at approximately $6,000,000,000.[2] To this is added the floating loans made by Europe to America. These loans are made chiefly in the spring and summer months in anticipation of the exports of produce in the fall months, when they are largely paid off. Paish estimated the amount of this floating debt, in the form of produce bills, finance bills, loans against securities, overdrafts, and the like, at about $400,000,000, on the average; and stated the total amount of capital borrowed by the United States, including both fixed investments and floating loans, as $6,500,000,000.

Since the outbreak of the Great War there have been various estimates, by our leading financiers and financial journals, of the amount of American securities held abroad in 1914. On the basis of a compilation by Dow, Jones & Co. from the returns of 114 corporations in the United States, the total foreign investment was estimated to be in excess of $5,000,000,000,[3] of which European

[1] Sir George Paish, Trade Balance of the United States, p. 174. National Monetary Commission, 1910.

[2] Ibid. p. 175.

[3] *Bradstreet's*, October 24, 1914, p. 690. Cf. the *Statist*, January 8, 1916, pp. 61, 62, where British investments in the United States are given as follows:

| | |
|---|---|
| Railroad securities | £618,000,000 |
| Other investments | £145,000,000 |
| | £763,000,000 |

holdings of railroad securities constituted $4,000,000,000. All of the estimates that have been given put the total at $4,000,000,000 to $5,000,000,000.[1] In the absence of any evidence as to large withdrawals of capital since 1908, it is probable that Paish's estimate is an overstatement; and that for the whole period 1896–1914, foreign capital in the United States increased from about $2,500,000,000 to about $4,500,000,000. Against this is to be placed American capital invested abroad, which was put by N. T. Bacon[2] at $500,000,000 in 1899 and by Sir George Paish[3] at $1,500,000,000 in 1908. For the whole period it is probable that the inward flow of capital amounted to about $2,000,000,000, and the outward flow to about $1,000,000,000, leaving a net increase of $1,000,000,000.

Interest payments on foreign capital were estimated by Paish as $300,000,000, in 1908. In 1900, with foreign investments of over $3,300,000,000, as shown by Bacon's investigation, interest payments were probably not less than $125,000,000. For the whole period, interest on foreign capital probably averaged about $200,000,000 a year, by conservative estimate; and incoming interest payments on American capital invested abroad, which as we have seen increased to $1,500,000,000, probably averaged $40,000,000, leaving a net annual outflow on interest account of $160,000,000 a year.

Even more important than the interest charges in this period were the expenditures by American tourists in foreign lands and the remittances of savings to the home countries by immigrants. Tourists' expenditures increased markedly as a consequence of the wave of prosperity in the late nineties. The number of American citizens returning to the United States from other lands increased from 93,602 in 1898 to 157,050 in 1901, 167,227 in 1905, 200,447 in 1908, and 286,604 in 1913.[4] From the data obtainable as to the expenditures of these tourists, Sir George Paish estimated that the sum expended in 1908 approximated $1,000 per person, giving an

[1] See, for instance, T. W. Lamont, *Boston Herald*, December 12, 1918.

[2] *Yale Review*, November, 1900, p. 276.

[3] Trade Balance of the United States, p. 176. National Monetary Commission, 1910.

[4] Statistical Abstract of the United States, 1916, p. 111.

aggregate of $200,000,000. In that year, the number of European tourists arriving in the United States, other than those passing through to Canada, was about 30,000; at $1,000 per person, their expenditures aggregated $30,000,000, leaving a net balance of about $170,000,000[1] a year owed by the United States to cover tourist expenditures. This sum does not include the amounts expended for works of art, jewelry, clothing, and the like, which are declared at the customs and are included in the value of the goods imported into the United States. That Paish's estimate is conservative is indicated by *Bradstreet's* computation of 1914, which takes the moderate average expenditure of $500 per person, and yet puts the total annual outgo at about $175,000,000.[2]

No less striking was the growth of immigrants' remittances. The most thorough-going investigation of this item is that of C. F. Speare[3] for the year 1907. It is based on an inquiry among the small foreign bankers through whom remittances of this sort are chiefly made, and is supplemented by reference to the amounts of international postal orders annually issued by the United States post office. These postal orders show a surprising increase after 1900. In 1885 they amounted to only $6,840,000, in 1895 to $12,906,000, and in 1900 to $16,749,000. By 1907 they had reached $84,080,711, and by 1911, $109,604,639.[4] These postal orders are less important as an indication of the volume of immigrants' remittances than are drafts furnished by the small native banker. Through him goes the great bulk of all money sent out of the country on this account. In 1908 there were over 1,000 Italian bankers in the United States (about three hundred of whom were in New York), several hundred Hungarian bankers, chiefly in the East and in the coal and iron regions of the Middle West, and numerous Russian bankers in the New York foreign quarter. Half a dozen banking institutions in the Northwest, in Chicago, and in New York, handled the largest part of the remittances to Norway and Sweden. All

[1] Sir George Paish, Trade Balance of the United States, pp. 178–180. National Monetary Commission, 1910.

[2] *Bradstreet's*, November 21, 1914, p. 754.

[3] *North American Review*, January, 1908, pp. 106–116.

[4] Statistical Abstract of the United States, 1916, p. 726.

together, the amount forwarded by drafts on Europe sold by these private concerns was in 1907 about $125,000,000.[1] In addition, the express companies did a large business, calculated at about $20,-000,000 to $25,000,000 a year. The total sum remitted to Europe Mr. Speare estimated at $250,000,000, distributed as follows:

| | |
|---|---|
| Italy | $70,000,000 |
| Austria-Hungary | 65,000,000 |
| Great Britain | 25,000,000 * |
| Norway and Sweden | 25,000,000 |
| Russia | 25,000,000 |
| Germany | 15,000,000 |
| Greece | 5,000,000 |
| All others, including France, Switzerland, Belgium, and Denmark | 10,000,000 |

* According to Sir George Paish, of the sum remitted to Great Britain, in 1906, about $10,000,000 went to Ireland alone — $5,500,000 through banks and over $4,000,000 by the post office.

It is probable that Mr. Speare's total of $250,000,000 is somewhat too large, as a statement of purely immigrant remittances. A portion of this money was remitted by persons returning to Europe to live, and should be set over against the item of cash brought to the country by newly arriving immigrants. Moreover, many of the money orders and drafts are sent to Europe in purchase of small parcels of goods, which figure in the merchandise imports; it is not possible to determine if a small remittance represents a purchase of commodities or merely a gift. Allowing for these factors, it is probable that immigrants' remittances in 1907 amounted to from $150,000,000 to $200,000,000.[2]

The other items of indebtedness in this period were much smaller than the three just reviewed. The chief of them was freight payments. In this period the foreign carrying trade in American vessels reached its lowest point. In 1874, 27.2 per cent of our total foreign trade was in American vessels, in 1894, 13.3 per cent, and in 1902, 8.2 per cent. In 1914, the percentage was 9.4 in American vessels, and

[1] *North American Review*, January, 1908, p. 109.

[2] See Sir George Paish, Trade Balance of the United States, pp. 182–186. National Monetary Commission, 1910.

90.6 in foreign vessels. For the whole period 1896–1914, imports in foreign vessels amounted to $18,182,755,000, and exports in American vessels to $2,154,551,000, leaving an excess, on which net outward freight payments were due, of $16,028,204,000. Hobson's freight index, after the marked fall from the early seventies to the early nineties already referred to, shows but little further decline. The index number for 1895 is 75.8; to 1901 the trend is upward, to 103 in that year; thereafter to 1908 the trend is downward, to 61.5 in 1908, after which it rises again to 107.5 in 1912.[1] The average number for the period 1896–1914 is 73.9. So far as the level of ocean rates is concerned, therefore, we may take approximately the same percentage of freight to value of trade as we have taken for 1895, namely 5 per cent. As a check upon this figure, one may find the total value of the world's imports and exports, and by subtracting the latter from the former reach a figure which represents roughly the cost of carriage. In 1907 the world's imports were estimated at $18,685,000,000, and the world's exports at $16,918,000,000; so that the difference, which measures roughly the cost of carriage, was $1,767,000,000,[2] which is 5 per cent of the total world foreign trade. Applying this figure to the net sum on which freights were payable by the United States in the period 1896–1914, $16,028,204,000, we find the net freight charge to be $801,410,000, or $42,179,000 a year. Deducting as before one-fifth for port expenses[3] we find the net earnings of American vessels in the export trade to be $86,182,000; of foreign vessels in the import trade $727,310,000. The sum remitted abroad on this account was then some $641,000,000, about $33,700,000 a year.

* * * * * * * * * * *

As an indication of the state of our balance of international payments in a single year of the immediate pre-war period, we give the balance drawn up by Sir George Paish for the United States National Monetary Commission of 1910. The balance is for the fiscal year July 1, 1908–June 30, 1909:

[1] C. K. Hobson, The Export of Capital, p. 182. [2] Ibid. p. 174.

[3] Hobson's detailed account of receipts and expenditures of seven voyages in 1907 showed the percentage of expenses in foreign parts to be 30 per cent of total receipts.

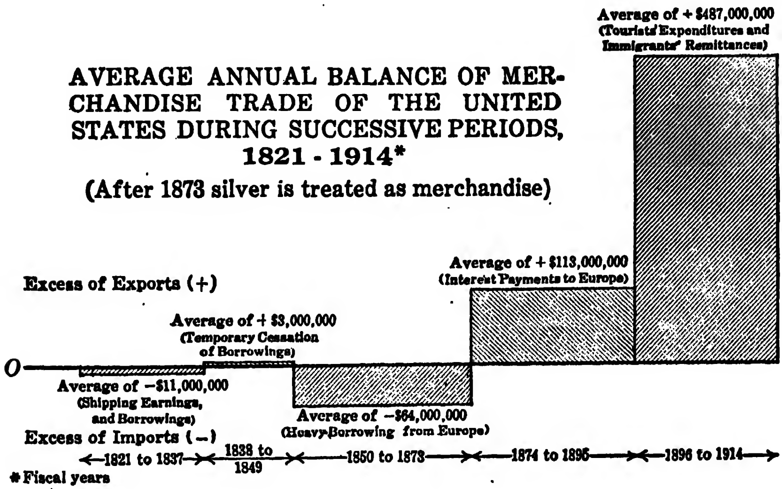
BALANCE OF PAYMENTS OF THE UNITED STATES, 1909

| | | | |
|---|---|---|---|
| *Merchandise* | | | |
| Exports | $1,663,000,000 | | |
| Imports | 1,312,000,000 | | |
| Excess of exports over imports | | $351,000,000 | |
| *Gold* | | | |
| Exports | $92,000,000 | | |
| Imports | 44,000,000 | | |
| Excess of exports over imports | | $48,000,000 | |
| *Silver* | | | |
| Exports | $56,000,000 | | |
| Imports | 44,000,000 | | |
| Excess of exports over imports | | $12,000,000 | |
| TOTAL EXCESS OF MERCHANDISE AND SPECIE EXPORTS OVER IMPORTS | | | $411,000,000 |
| Remittances of interest | $250,000,000 | | |
| Tourists' expenditures | 170,000,000 | | |
| Immigrants' remittances | 150,000,000 | | |
| Freight | 25,000,000 | | |
| TOTAL REMITTANCES | | | $595,000,000 |
| Excess (liquidated by permanent or private investments of capital) | | | $184,000,000 |

## G. RÉSUMÉ OF OUR BALANCE OF TRADE FROM 1820 TO 1914

The historical survey of our balance of trade, as given in the preceding pages, has served its purpose if it has made clear the broad outlines of our gradually changing international situation, as now one factor and now another has exercised a predominating influence. Defective as many of the data are, particularly in the earliest periods, the main facts of the record stand out with quite astonishing clarity, so that very rarely is one in serious doubt in ascertaining what in any given period were the factors of major consequence, or in measuring the extent of their effect upon the balance of merchandise trade.

Since our account has been purposely condensed to the bare essentials of a descriptive summary, there is no need of detailed résumé. The general course of our trade and our trade balance from 1821 to 1914 is shown in the accompanying charts. The first[1] shows the annual exports and imports. In the second chart, below, is shown the average annual balance of trade in each of the periods from 1821 to 1914. It shows that in response to alterations in the




AVERAGE ANNUAL BALANCE OF MERCHANDISE TRADE OF THE UNITED STATES DURING SUCCESSIVE PERIODS, 1821 - 1914*

(After 1873 silver is treated as merchandise)

various invisible items of indebtedness, the size and the state of the balance have undergone gradual change; and that, in general, except for the brief period from 1838 to 1848, our balance of trade was unfavorable down to 1874, first by reason of our shipping earnings, then because to these earnings was added an inflow of foreign capital, and finally on account of our large production and export of gold, combined with still heavier borrowings of foreign capital; but that, since the overturn which occurred in 1874, our balance has been favorable, first moderately, because of the gradually growing interest charges on foreign capital invested in earlier periods, and then, since the late nineties, more markedly, by reason of the rapid growth of tourists' expenditures and immigrants' remittances.

[1]On pages 160–161 supra.

UNITED STATES BALANCE OF TRADE BY PERIODS, 1821-1918
(Units of $1,000,000)

| Period (Fiscal years) | Totals for the Period | | | | Averages for the Period | | | |
|---|---|---|---|---|---|---|---|---|
| | Ex-ports* | Im-ports* | Balance | | Ex-ports* | Im-ports* | Balance | |
| | | | Excess of exports (+) | Excess of imports (−) | | | Excess of exports (+) | Excess of imports (−) |
| 1821-1837 | 1389 | 1574 | —— | 185 | 82 | 93 | —— | 11 |
| 1838-1849 | 1392 | 1358 | 34 | —— | 116 | 113 | 3 | |
| 1850-1873 | 6585 | 8125 | —— | 1541 | 274 | 338 | —— | 64 |
| 1874-1895 | 17231 | 14738 | 2493 | —— | 783 | 670 | 113 | |
| 1896-1914 | 32128 | 22866 | 9262 | —— | 1691 | 1204 | 487 | |
| 1915-1918 | 19632 | 9645 | 9987 | —— | 4908 | 2411 | 2497 | |

* After 1873, these figures include imports and exports of silver.

## II. The History of Our Foreign Trade Balance during the Great War[1]

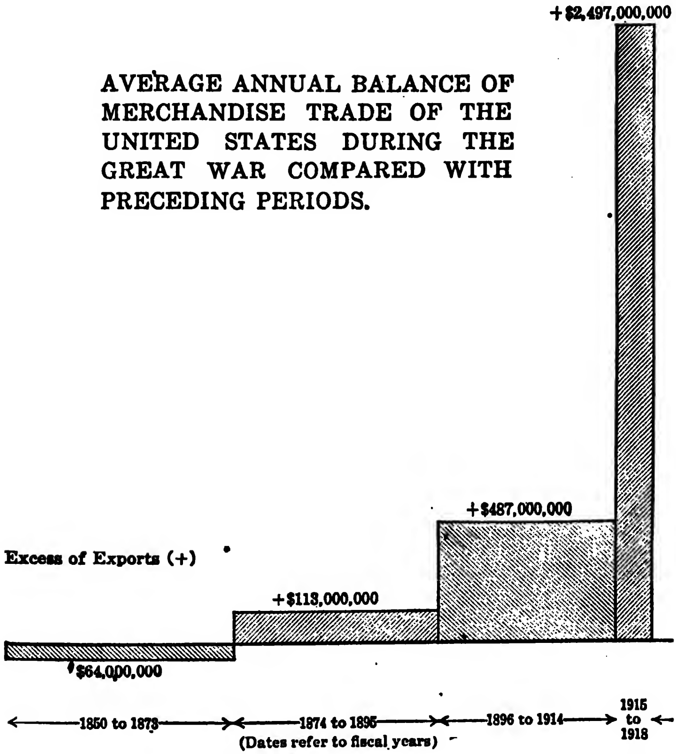
### A. INTRODUCTION

With the great war came a profound dislocation of international commerce. Exports from the United States have grown into figures such as have never been witnessed in any country. There has been an inflow of gold so enormous that today the United States is holding one-third of the total monetary stock of the world. A nation which down to 1914 had been the world's greatest borrower of capital has become the world's greatest lender, in the scale and rapidity of its advances if not in the total amount at present outstanding. Finally, our merchant marine, virtually moribund since Civil War times, has been revived, at least temporarily, on a gigantic scale.

And this is not all. As a result of war's interferences with normal economic activities, there have been other significant realignments of international currents. For the time, at least, a great change has taken place in the organization of commerce. Before the war the British and German merchant fleets in their voyages around the world brought back all sorts of products from all corners of the earth, to be redistributed over the world. The United States acquired its Egyptian cotton, its Far Eastern and Brazilian rubber, its

[1] Bullock, Williams, and Tucker, The Balance of Trade, pp. 234-238.

East Indian and Bolivian tin, its Australian and Argentine wool largely through these great trading nations. Today we buy our raw materials direct from the producing countries. The reëxport trade of Hamburg has, of course, been stopped; that of London has declined; and the United States has become an important reëxporter.




AVERAGE ANNUAL BALANCE OF MERCHANDISE TRADE OF THE UNITED STATES DURING THE GREAT WAR COMPARED WITH PRECEDING PERIODS.

In the minds of some, the growth of reëxports appears to signify our permanent participation in international merchandising, in the middleman functions of world commerce, with New York as a central world market from which there will extend a world-wide distributive organization, operating through American banks in foreign countries, American export and import houses around the world, and, as the central pillars of support for so vast a structure, large capital investments in other lands and a great merchant fleet. That is one of the interesting questions. Is our reëxport trade to grow, or is it

only incidental and sporadic? Is New York to become an international trading center, a second London, or have we taken over some of the functions and constructed some of the machinery of such a center merely for the time, and because temporarily we have been obliged to do so? During the war there has been a remarkable extension of American banks into foreign fields, and at home the establishment of agencies for the analysis and promotion of foreign investment. By new commercial and banking legislation we have provided a more adequate basis for a large-scale, permanent business of export. Our foreign trade conventions and councils are conducting educational campaigns to promote foreign trade. Do these activities point at once to a two-fold permanent development of large-scale foreign investment and foreign trade, similar to that of Great Britain and Germany before the war?

Our unprecedented export trade during the war, our enormous loans to Europe, and the revival of our merchant fleet have brought about a profound change in our balance of international payments, so that, for the time at least, the United States, up to 1914 a debtor nation, has become the world's creditor. Such a condition implies the receipt of payment from the debtor, either in gold, in securities, or in goods. Payment of our enormous balances in gold is out of the question. Payment in securities implies a continuance of the war condition of our trade—an outward flow of capital and goods, an excess of exports over imports. Such a movement financed, as it must be, by further credit expansion in European countries, and occurring coincidently with the payment of the German indemnity, would probably produce in the Allied countries further inflation of price levels, already raised to new heights in all countries. And if, for a time, we "carry the bag" and enable Europe to settle her adverse balances out of advances from our own pockets, eventually those balances, augmented by the new borrowings, must be paid in goods. Our imports must increase, our excess of exports disappear; and it may be, though that subject is reserved for later discussion, that an excess of imports will take its place. When will this change occur? And what will be its effect upon the level of prices in the United States, as compared with that in European countries?

These are some of the interesting questions raised by the war just ended. Many of the larger problems we cannot hope to discuss in

the present article. But we may venture the opinion that many of the claims and predictions regarding our new trading position are over-optimistic. Our view regarding reëxports, for example, is that this country has not yet developed the intricately coördinated international mechanism of banking, trading, merchandising, and speculating to the extent necessary for a permanent reëxport trade of large dimensions. Our acceptance and discount facilities are as yet comparatively slight. At present our only real acceptance market is in the federal reserve banks.[1]

We shall confine ourselves in the present article to the consideration of those questions which arise directly out of the changes which have occurred in our balance of international payments; these questions are: What has been the state of our balance of payments during the war? What further changes are likely to result? We take up first the statement of the balance in the war period, beginning with the merchandise trade.

## B. MERCHANDISE

The following table shows the balance of trade of the United States from July 1, 1914, to January 1, 1919.

UNITED STATES BALANCE OF TRADE DURING THE WAR

(Units of $1,000,000)

| Fiscal Years | Exports | | | Imports | | | Excess of Exports |
|---|---|---|---|---|---|---|---|
| | Commodities | Silver | Total | Commodities | Silver | Total | |
| 1915 . . . . . | 2768 | 51 | 2819 | 1674 | 29 | 1703 | 1116 |
| 1916 . . . . . | 4334 | 60 | 4394 | 2198 | 34 | 2232 | 2162 |
| 1917 . . . . . | 6290 | 78 | 6368 | 2659 | 35 | 2694 | 3674 |
| 1918 . . . . . | 5920 | 139 | 6059 | 2946 | 70 | 3016 | 3043 |
| 1919 . . . . . | 7233 | 301 | 7534 | 3096 | 79 | 3175 | 4359 |
| Yearly Average | 5309 | 126 | 5435 | 2515 | 49 | 2564 | 2871 |

[1] A computation by Mr. Leopold Frederick, of the American Smelting and Refining Company, showed that at the end of November, 1918, the total of outstanding acceptances representing the financing of imports and exports through New York was only $210,000,000, as against $500,000,000 in London. See *Federal Reserve Bulletin*, January 1, 1919, p. 21.

The table shows total exports of $22,974,000,000 and imports of $11,166,000,000, or a favorable balance of $11,808,000,000. This enormous balance, in four and one-half years of trade, is equal to the sum of the annual balances from 1873 to 1914.[1] For the pre-war period, as we have seen, the average annual excess of exports was about $487,000,000; during the war the average balance was $2,624,000,000, or the equivalent of the balances for five years of the pre-war period.

These large balances were due entirely to the expansion of exports, and not to a diminution of imports. The quantity of goods imported has undoubtedly diminished; for Europe, upon which we were wont to draw most heavily, was no longer able to spare any large quantity of merchandise, and we, especially after our entrance into the war, were forced by the need of conserving tonnage and by other considerations to restrict most imports not essential to the conduct of the war. Yet such was the rise of prices in the producing markets, that the total value of imports showed a very material increase. In 1915 the value of imports was about the same as in any of the immediate pre-war years; but from 1916 on there was a considerable increase, from $1,703,000,000 in 1915 to $3,016,000,000[2] in 1918. This increase of about $1,300,000,000, however, was slight compared with that in exports. The increase of exports showed itself first in the fiscal year 1916. For the first months of the war exports declined sharply; and it was not until December, 1914, that they reached the level of the preceding year. From then on the expansion was rapid, but by reason of the decline in the autumn of 1914, the export figures for the fiscal year 1915 were but little above those of 1914.[3] In 1916 exports were about 81 per cent greater than in 1914. In 1917, they reached the extraordinary figure of $6,368,000,000, an increase of 163 per cent over the exports of 1914; the trade balance in that year was $3,674,000,000, or over

[1] Excess of exports, 1873–1914: $11,754,849,000.

[2] Fiscal years, including silver. This increase of 77 per cent in the value of imports should be compared with the increase in prices, which, as shown by various index numbers, was from 81 per cent to 91 per cent during the same period.

[3]

| | (Units of $1,000,000) Exports | Imports |
|---|---|---|
| 1914 | 2,420 | 1,924 |
| 1915 | 2,819 | 1,703 |

six times the balance of 1912, over five times that of 1913, and nearly eight times that of 1914. In 1918, exports receded slightly, imports were slightly larger, and the trade balance declined to $3,043,000,000. But in the fiscal year just closed, according to the preliminary figures announced by the Department of Commerce, exports increased to $6,806,000,000, the largest total in the history of American foreign trade; the trade balance also reached its highest point, $3,704,000,000.

These enormous exports were due to the war demands of Europe, and to the great rise in export prices consequent upon that demand. In some measure, they were due to the fact that the Allies were not able to meet the needs of neutral markets, notably in South America and the Far East, in anything like the volume of normal times, so that those countries turned to the United States for manufactured goods. With the chief of these latter countries, however, the trade balances have been against us. Exports to Argentina in the period July 1, 1914, to July 1, 1918, were $285,000,000, against $544,000,000 imported from that country, giving an adverse balance of $259,000,000; total exports to Brazil were $187,000,000 and the imports $490,000,000, giving an adverse balance of $303,000,000; from Japan the imports were $740,000,000 and the exports thereto $523,000,000, making the balance against us $217,000,000. In general, our trade balances have been markedly favorable with the Allies, moderately favorable with the British possessions and European neutrals, and unfavorable with neutrals outside of Europe.

Our exports have expanded and our trade balances have grown because the belligerent nations of Europe have needed enormous quantities of food and materials of war. Of the three large classes which compose international trade—foodstuffs, manufactures, and raw materials for manufactures—the great gains have been in the first two. Exports of raw materials actually declined—from $2,960,000,000 in the four years preceding the war to $2,675,000,000 for the period July 1, 1914, to July 1, 1918. The reason for the decline was the partial or total closing of European markets. The chief export in this group is cotton. With the outbreak of war, cotton shipments to Central Europe and to Belgium ceased; those to Russia dwindled to almost nothing; those to Great Britain, France, and Italy, our other principal cotton markets, were materially

reduced by the loss of labor and the utilization of factories for other work, and the reduction of their exports of cotton manufactures. Cotton exports therefore fell from 36,000,000 bales, the aggregate for the four years 1911–14, to 25,000,000 bales in the four years 1915–18. The increase of prices, however, prevented the total value of cotton exports from showing a corresponding decline.

Meanwhile, exports of food and manufactures have increased enormously. Foodstuffs increased from $1,757,000,000, the total for the four years preceding the war, to $4,780,000,000 for the four years July 1, 1914, to July 1, 1918. This increase occurred mainly in four commodities—wheat, flour, meats, and dairy products. Comparing the four-year period preceding the war with the four years ending with July 1, 1918, exports of wheat and wheat flour increased from $432,000,000 to $1,456,000,000, or 237 per cent; and meat and dairy products exported increased from $605,000,000 to $1,609,000,000, or 166 per cent.

But it was in manufactures that the most extraordinary expansion occurred. From $4,210,000,000 in the four pre-war years, manufactures exported increased to the enormous total of $11,380,000,000. The chief gains were in explosives, iron and steel goods, chemicals, and metal for shells. Explosives increased from $21,000,000 to $1,716,000,000, manufactures of iron and steel from $1,055,000,000 to $3,140,000,000, chemicals from $105,000,000 to $662,000,000, and brass manufactures from $20,000,000 to $662,000,000. Only less striking were the increases in cotton manufactures (from $154,000,000 to $485,000,000), in woolen manufactures (from $15,000,000 to $122,000,000), in automobiles (from $97,000,000 to $420,000,000), and in leather goods (from $158,000,000 to $350,000,000). In 1914 manufactures constituted 47 per cent of our total exports. During the war period they were 58 per cent.

* * * * * * * * * * *

## C. GOLD, CREDIT, AND FOREIGN EXCHANGE

How was this enormous balance met? It was met in part by a net import of gold. As was to be expected, the international movement of gold during the war surpassed anything previously known to commerce. Both the exports from and the imports to the United

States were very much larger than ever before. Most of the gold imported represented purchases made by Great Britain, France, Russia, and Italy. They reached us chiefly through Canada, so that in our official record that country was credited with exceedingly large gold exports to the United States. Imports of gold ore, bullion, and coin into the United States from July 1, 1914 to December 31, 1918, aggregated $1,767,900,000, as against gold exports of $738,900,000, leaving a total net import of $1,029,000,000.

GOLD BALANCE OF THE UNITED STATES DURING THE WAR

(Units of $1,000,000)

| Fiscal Years | Exports | Imports | Balance | |
|---|---|---|---|---|
| | | | Excess of exports (+) | Excess of imports (−) |
| 1915 . . . . . . . . . . | 146.2 | 175.0 | —— | 28.8 |
| 1916 . . . . . . . . . . | 90.4 | 494.0 | —— | 403.6 |
| 1917 . . . . . . . . . . | 291.9 | 977.2 | —— | 685.3 |
| 1918 . . . . . . . . . . | 190.8 | 109.8 | 81.0 | |
| 1919 . . . . . . . . . . | 116.6 | 62.4 | 54.2 | |
| Yearly Average . . . | 167.2 | 363.7 | —— | 196.5* |

* Net imports.

As an offset against a favorable trade balance of over $11,000,000,000, this sum is inconsiderable. But when considered in relation to the world's stock of gold, its effect upon bank reserves in the countries from which it came and in our own country, its relation to the huge superstructure of credit piled up in all belligerent countries, the resultant changes in price levels, and the mechanism of foreign exchange whereby international transactions are effected, its importance is evident. The approximate stock of gold in the United States in 1910 was $1,710,000,000; in 1914 it was $1,805,098,000. By the end of 1917 it had increased to $3,041,500,000, or about one-third of the world's total stock of gold in banks, public treasuries, and circulation.[1] In 1918 there was a slight net export of gold, amounting to $67,000,000 for the fiscal year; on the other

[1] Report of Committee on Gold Situation, United States Department of the Interior, *Bulletin 144*, October, 1918, p. 19.

hand the total gold reserves of the federal reserve banks increased from $1,720,768,000 (December 28, 1917), to $2,146,219,000 (December 28, 1918).[1]

This large increase in our gold stock meant a heavy drain upon the gold stocks of Europe. According to the *Report of a Joint Committee Appointed from the Bureau of Mines and the United States Geological Survey* to study the gold situation (Bulletin 144, Oct. 30, 1918), the gold stock of France decreased from $1,384,125,000 in 1915 to $634,403,000 in 1918, and that of England from $661,944,000 to $327,318,000 in the same period. In Italy gold reserves declined from $335,689,000 to $155,785,000; the German stock decreased from $714,073,000 to $587,041,000; that of Austria Hungary from $296,300,000 to $52,398,000; and the gold stock of Russia decreased from $1,058,480,000 to $630,099,000 by October 29, 1917, since which time no figures are available.

* * * * * * * * * * *

[1] Annual Report of the Federal Reserve Board, 1918, p. 15.

## VII

# TAUSSIG: THE PRESENT AND FUTURE OF THE INTERNATIONAL TRADE OF THE UNITED STATES[1]

THE outstanding feature of the international trade of the United States during recent years has been the enormous excess of merchandise exports. The figures, familiar though they are, remain astounding. During the five fiscal years from June 30, 1914, to June 30, 1919, the exports exceeded the imports, on the average, by nearly three billion dollars each year. In the amounts of these "favorable" balances, as well as in their character, the phenomena are unexampled.

The exports stand mainly for loans. True, during the first year or two of the European war they were paid for, in part at least, by cash remittance. Gold was sent to the United States; and here again the amounts were quite beyond anything before experienced in the world's history. But these remittances, extraordinary as they were, could not liquidate the obligations for the enormous excess of exports. Loans were arranged, beginning with the Anglo-French loan of 1915, and followed by other issues of similar character. After the entrance of the United States into the war in the spring of 1917, the lending process still continued, but through a different channel. Our government undertook on its own account the advances which served to finance the ever-mounting volume of exports. No transactions comparable to these have ever appeared in the history of international lending and borrowing The problems which they present are significant both for economic theory and for the practical exigencies of the present and the immediate future. In the following pages I shall endeavor to analyze them from the point of view both of theory and of workaday significance.

[1] F. W. Taussig, in *Quarterly Journal of Economics*, November, 1919, Vol. XXXIV, pp. 1–18.

First, the theoretical problems. How may international loans be expected to influence the trade between the lending and borrowing countries?

Under the conditions which are normally assumed in economic theory—an existing equilibrium of merchandise imports and exports, no other intervening factors—the first phase in the operations would be an outflow of specie from the lending country. That country would tend to have prices and incomes lower than before, or, what comes to the same thing, prices and incomes remaining low if in the world at large the movement should happen to be upward. The reverse tendency would appear in the borrowing country. The double change would have the effect of stimulating the movement of goods from the lending country and bringing about an excess of exports over imports. The stimulus to merchandise exports might take place in even more direct fashion, through the circumstance that the banking and financing houses might be interested also in enterprises manufacturing for export. The details of the possible variants of these comparatively simple transactions need not detain us here. Suffice it to say that the trend toward increasing merchandise exports from the lending country and toward a "favorable" balance of trade is a familiar phenomenon. Indeed, it appears in actual experience even more promptly and unmistakably than the theoretical analysis might lead one to expect. The characteristic to which attention is to be directed here is that the foreign demand for goods *follows* the loans, or at best accompanies the loans, and that the primary moving impulse is the loan itself, the foreign demand for exports being a consequence or accompaniment.

In the operations which we are here following, however, the case is different. The moving cause in this case was the initial and enormous demand for American goods. The loans were consequence, not cause. The stage preceding the loans, and subsequently affected by them, was not a stage of equilibrium, but one of great excitement and instability—abnormal foreign demand, inflowing gold, rising prices. The loans caused no outflow of specie; they served first to check in some degree the inflow of specie and in the end to prevent it completely. They were at no time either followed or accompanied by a tendency to lower prices in the lending country. Their effect was only to stay the tide of rising prices. In other words, the

theoretical analysis which would be applied to the ordinary or normal conditions must, in this case, be supplemented by taking account of a complicating circumstance—an almost insatiable demand for the exports of the United States. And it was in consequence of that demand that the United States came to be a lending country.

The forces were not only complex; they were also enormous in volume. The ordinary mechanism of adjustment proved quite inadequate for regulating this cataclysmic overturn. It was simply impossible to find anywhere in the world means of remittance, of the usual kind, sufficient in amount to provide payment for the exports demanded from the United States. The orthodox analysis of the case is that an excess of exports will be paid for by inflow of specie, continuing until changes in prices lead to the reëstablishment of equilibrium. But nothing of this kind was possible. If the gold flow into the United States had been allowed to continue until it thus came automatically to an end, all the available gold in allied countries would have been carried to the United States, and yet without bringing its own remedy. Here, as in so many other cases, time is of crucial importance. If the process had been spread over a decade or two, the results contemplated by theory would presumably have come about. Given time enough, prices and merchandise imports and exports would have shifted in the predicted way. But so enormous a movement, concentrated in so short a period, was quite beyond the capacity of the ordinary channels of commerce and trade. It would not be accurate to say that in such case economic theory breaks down. The case was simply so extraordinary both in volume and in character as never to have been contemplated in theory.

A word now as to the causes of the rise in prices which in this case preceded the international loans, and, as has just been noted, was checked by the loans. Two periods are to be distinguished; first, that of loans financed by banking houses; and second, that in which the loans were financed by our government itself.

During the first stage the underlying cause of the rising prices was the inflow of gold. In the course of the calendar years 1915 and 1916 a round billion of dollars in gold was imported. I need not enter here on the thorny questions concerning the precise way in

which such an inflow affects prices. One may freely admit that a rise in prices might have taken place without it, and also that even with it an immediate rise in prices would not necessarily appear. But all will agree that the great influx of specie during 1915 and 1916, the consequent redundance of bank reserves, and the ease with which the Federal Reserve System was enabled to bring about an increase both of bank deposits and of notes, made possible a rise in prices that would otherwise have met with serious obstacles. And the accumulation of specie which took place during this first period served also to make possible the continuation and enhancement of the rise which marked the second period. The enormous loans of the government, connected as they were with mounting bank loans and bank deposits, led to unmistakable inflation. That term is perhaps not fairly applicable to the first period, when "natural" events, not government action, constituted the main heightening force. Certainly during the second period, when the successive loans of the government had such far-reaching effects in the business and financial world, there was plain inflation. And that inflation could hardly have taken place to so great an extent but for the preceding inflow and accumulation of specie. It was this which encouraged the Federal Reserve Board to go ahead and substitute reserve notes for government notes, and to sanction without hesitation the ever-increasing volume of bank operations. If the first stage had come to an end without further developments—if, for example, the war had ceased in the spring of 1917 and the United States had never been called on to enter it—the lending process, if continued by private agencies, might have served to check the tide of rising prices in the United States. As matters turned out, the second stage, during which the United States entered the war and itself financed the international loans through great domestic borrowings of its own, was characterized not by any maintenance of prices at the level at which they then stood, but by an accelerated and accentuated upward movement. And that upward movement, it need not be said, did not cease with the armistice and the cessation of military operations. The government's loans to the Allies and the peoples of Europe continued, and further internal loans were forthcoming.

Through it all, from the beginning of the lending operations in 1915 to their close, what we really did was to *buy from each other*.

It is common to speak of our enormous exports and of the enormous foreign demand for our exports as if these were causes of prosperity. The plain facts are that the foreign demand for our exports and the foreign payment for our exports were all on paper. True, the foreigners must have the goods and must pay for them. But the wherewithal to pay for them was furnished to the foreigners by our own people. In effect the payments were made by one set of our own people to another set. All that the foreigners really did was to send us certificates of indebtedness in one form or another—promises to pay, which will have an influence on the substance of our international trade only in the years to come.

This state of things cannot persist. The process of ever-repeated loans will inevitably come to an end. With it the enormous excess of exports over imports will come to an end. No rational person can suppose that such an abnormal state of international trade as we had in 1916–19 can continue indefinitely. An overturn must come. It may come with something of a crash and with the familiar accompaniments of a commercial crisis. We may fairly expect, however, that the Federal Reserve System, now well developed and well established, will serve to prevent any such complete collapse of the credit structure as in former times marked the beginning of a new economic cycle. But it is difficult to see how the ordinary accompaniments of such an overturn are to be avoided. We may expect a fall in prices and in stock exchange securities, industrial depression, declining prices, and declining incomes. He would be rash who would venture to predict how great or how long would be the depression, how considerable the fall in prices. It is hardly to be supposed that a range of prices as low as that of the pre-war period will be reached for a long time to come. But all indications are that we shall find ourselves below the maximum of the present and immediate past. An essential and conspicuous part of the change will be the readjustment of international trade, the cessation of the artificial and necessarily temporary preponderance of exports, and a shift both in imports and exports such as to bring about something like a normal situation.

What now will this readjusted and more normal condition of international trade prove to be? Prediction, or rather speculation, will best proceed by comparing the several factors which entered

into our international trade before the war with the same or similar factors as they may be expected to operate during the years to come.

The continuing excess of merchandise exports over imports during the pre-war period is again a familiar phenomenon. A large "favorable" balance was maintained continuously for the forty years from 1873 to 1913. It served to meet the various obligations which the people of the United States incurred to those of foreign countries. What was substantially a state of equilibrium had been attained. The merchandise transactions served to equalize payments without any sustained flow of specie in one direction or the other. The movement of gold was merely such as to meet the fluctuations which must appear in individual years, and left the supply of the United States untouched except so far as it was increased by the accumulation of the domestic output from the mines. We need not stop to inquire how far this equilibrium was arrived at through the process which the orthodox theory of international trade describes. For myself I believe in the main that it was so reached. But reached it was, as fully as is likely to be the case for any considerable period. The question before us is what new sort of equilibrium may be expected during the period to come. Allowance must always be made for fluctuations or irregularities in individual years; we are concerned with the general trend.

The main "invisible" items which affected our international trade and international payments during the pre-war period were four; tourists' expenditures, immigrants' remittances, freight charges, and interest and profits payable to foreigners. What can be said of the probable increase or decrease of these several items in years to come?

Tourists' expenditures seem likely to become larger. During the pre-war period it was supposed that they amounted to an average of about $150,000,000 a year. With the growth of wealth and population they would be likely to increase under any circumstances. For some years to come they would seem likely to increase at even more than the normal rate. During four years no tourists have gone abroad; there is an accumulation of persons looking forward to a first trip or to a repetition of previous trips. A wish to see the sites of war will add to the exodus. No doubt the greater or less activity of business and the greater or less prosperity dependent upon business

changes will cause the movement to fluctuate from year to year. But on the whole it may be expected to be substantially larger than in the past. There will ensue a consequent need of increasing remittances to foreign countries.

A similar tendency may be expected in remittances made by immigrants. These were an astonishingly large item during the decade preceding the war. The annual amount sent out was something like $200,000,000 a year. In the popular mind this was conceived as so much cash and was spoken of (in that mercantilist fashion which it seems impossible to uproot) as the loss of so much wealth to the country. In effect it meant that the Italians, the Irish, the Poles, and the Greeks supplied the wherewithal for buying American cotton and grain and iron and copper—goods which were exported and the proceeds of whose sale abroad enabled payments to be made to the relatives in the far-distant countries. That process probably will be resumed and enlarged, at least for some years to come. The United States will be more prosperous than European countries. The call for aid from relatives and parents will be more appealing than ever.

It must be admitted, however, that prediction in this matter is rash. Now that the illiteracy test is in effect, the bird of passage immigrant will be a less important figure than before, and less will be taken home by his kind than was formerly the case. The same factor will militate against another type of remittance, namely, that by which "money" was sent abroad for enabling relatives to join those already established here. Perhaps too the return movement of those immigrants who, though not birds of passage in the strict sense, nevertheless return to the old country with their earnings after having sojourned in the United States for a number of years, will be less in consequence of the uneasy conditions likely to prevail on the Continent for some years to come. Stable political and social conditions in Europe, on the other hand, will tend to make this movement larger. Everyone is at liberty to make his own guess. It is quite within the bounds of possibility that after all this factor during the next ten years will prove to be not of greater quantitative importance than before the war, but of less.

Next as regards shipping. The case here is clearer. The United States has embarked on a great scale in shipping enterprises, and

for some years freight charges will no longer constitute a debit item. Probably they will also not constitute a credit item. Our imports and exports will not be carried exclusively in American ships; they will be carried both in American and in foreign. . . . Something will need to be paid by us to foreign countries on freight account, and something will be received by American shipowners on that account. The two sides of the item will approximately balance. At all events, no such debit charge as that of pre-war times will have to be met.

Most predictable of all is the nature of the change that will take place in the interest and profits account. Here something like a complete reversal would seem to be inevitable. In the oft repeated phrase, the United States is no longer a debtor country but a creditor country. The remittances on this score will be preponderantly to the United States, not out of the United States. But the quantitative result is impossible to gauge. Unquestionably there will be a sharp reduction in interest remittances from the United States to foreign countries, perhaps so great as to amount virtually to complete cessation. The remittances on the other hand from Europe to the United States on interest account will be heavy. The great items will be those arising from public remittances—from the loans which European governments have contracted, whether to our own government or directly to our investing public. The possibility cannot be excluded that the interest charges due to our government may be postponed, conceivably even forgiven entirely. But the balance on interest account, whatever its amount may be, will cause remittances to be made to the United States, not from the United States, and therefore will tend, so far as this item is concerned, to bring an excess of merchandise imports and no longer an excess of merchandise exports.

A further item to be considered is the international movement on capital account. Before the war the United States was still, on the whole, a borrowing country. It is true that the process of making investments abroad, more particularly in non-European countries, had already set in. But the net transactions on capital account had been such as to leave the United States a borrowing country, and to make this item a credit one in our international account. A common

popular fallacy on this score is that a "borrowing" or "debtor" country necessarily has an excess of exports, a lending or "creditor" country an excess of imports. Such is the case, as needs hardly be said to the conversant reader, only when a country has been in the creditor position for a prolonged period, even for generations. During the earlier stages of lending or of being a creditor country, the effect on international trade is precisely the reverse of that so often assumed in popular discussion. During this earlier stage the lending country has an excess of exports, the borrowing country an excess of imports. Only when, as in the familiar cases of Great Britain and France during the last half of the nineteenth century, the processes of lending and borrowing have been maintained for many years, does the creditor country show a balance of merchandise imports; and only when the borrowing country has been a borrower for a long period, does it have a balance of merchandise exports.

Obviously the recent changes of the United States in this regard have been quite extraordinary and unprecedented. We have jumped during the short period of three years from one position to another quite the reverse. A shift which would be expected to require at least a generation has been made in a triennium. There has been a sudden reversal, not a gradual transition. Now that the main shift has taken place, there may be complementary changes, and more especially a flow of investment and consequent remittance to foreign countries. Standing alone, such remittance on capital account would lead to an excess of merchandise exports from the United States. Side by side with it, however, will be the process of remittances *to* the United States from foreign countries on interest account. What will be the quantitative balance between the two no one can venture to predict. I do not myself look forward to so vast or rapid increase in American investments in foreign countries as do some of our financial writers and experts. It is obvious that the process cannot possibly be maintained on anything like the scale of the last year or two, nor can it lead to merchandise exports on the same scale. The most that can be expected from our becoming a lending country is a partial offset to the other side of the account, namely that by which interest and profits will have to be remitted from foreign countries to our own shores.

Speculative as must be the outcome for each of these four items, the final outcome for our international trade as a whole necessarily is still more speculative. The best guess would seem to be that the United States will maintain an excess of merchandise exports, but not so great an excess as that which characterized the twenty years preceding the war. We shall have a favorable "balance of trade," but one not so favorable as before. Our prosperity boomers will not be able to speak so unctuously of our great reserves of credit abroad and our great accumulations of resources. Needless to say, there will be marked variations from year to year. There will be the recurring seasonal fluctuations in the crops, and there will be shifts in financial and industrial conditions. Very possibly some years will show an excess of imports, others an unusual excess of exports. Looking over the ten years from 1920 to 1930 the outlook is for some continuing excess of merchandise exports over merchandise imports. But it would seem impossible that the annual excess should be on the average at all so great as that of the decades preceding the war. In the end—supposing no new factors to enter before this final stage is reached—the accumulation of interest payments will bring about an excess of imports.

Still another set of questions arises. What may be expected to be the course of prices in the United States, and what the course of money incomes?

First, the theory of the matter. In general it is to be expected that during a process of expanding imports a country will have prices relatively high. It is only when the conditions for sale within a country are favorable that imports can be expected to enlarge. Conversely, a process of expanding exports may be expected to be coincident with a period of prices relatively low. Exports obviously are promoted when the conditions within a country are favorable for purchase.

These general statements need a word of explanation. The terms "high prices" and "low prices," when used in this connection, have reference to previous conditions within the same country, and make no comparison with other countries. An increase of imports in a given country is induced by prices higher than they were before in that country; which does not necessarily mean a range of prices

higher than elsewhere. Increasing exports, conversely, are stimulated by prices lower than they were before in the same country; which again does not necessarily mean that the general range of prices in that country is lower than elsewhere. It is obvious that the prices of the particular articles that enter into international trade—they may be styled the "international commodities"—whether they be imported or exported, will be substantially the same (barring transportation charges and customs duties) throughout the several trading countries. Their movement from one country to another will be affected by the general course of other prices and of money incomes within the several countries. This course will be upward or downward within each country, both for the international commodities and for those solely within the range of domestic transactions, in sympathy with the general conditions of international trade. A general upward swing tempts imports; a downward swing stimulates exports. True, the inflowing imports operate to check the rise, but they continue until it is checked. And conversely, while the outgoing exports operate to check the fall, they continue until the check does come.

Lending operations, alone and by themselves, signify a tendency to increasing exports induced by prices comparatively low. Borrowing, on the other hand, means in the same way a tendency to increasing imports induced by prices comparatively high. "Alone and by themselves"—in this sense and subject to this restriction the propositions hold good. A country whose trade has been in equilibrium, which starts on a lending career, and in which no other new factors affect the situation, must make remittances to foreign parts, and soon will reach the stage of effecting them through the export of goods. A country which under similar conditions starts on a borrowing career will soon reach the stage of increasing imports tempted by rising prices, and will soon have an "unfavorable" trade balance.

Consider now the way in which these opposite transactions formerly took place in the United States, and the way in which they are likely to take place in the future. During the pre-war period the United States still was a borrowing country. Thereby it was under the influence of a factor which, so far as it went, promoted advancing

prices and imports. On the other hand, as has already been explained, during this same period there were preponderant other factors, among them the accumulated interest on old loans, working in the opposite direction. Our borrowing, at all events, may now be expected to cease. If there be new transactions on capital account, they will be rather in the opposite direction. The fresh loans will be from the United States, not to the United States. And yet in this reversed case, the net outcome of international financing is likely again to be that other factors will outweigh and completely counteract the new transactions on capital account. Just as interest remittances *from* the United States on account of past loans had offset the pre-war borrowing, so interest remittances *to* the United States will probably offset post-war lending. So rapid and enormous have been the loans of the war period that the interest remittances one way are likely to exceed the capital remittances the other. The net outcome of the international lending in both cases proves to be such as to cancel the effect which borrowing alone would have. The balance, as regards this connected pair of operations, will be the other way from what it was before the war. International credit operations will tend to rising prices and swelling imports.

In other words, the extraordinary overturn in credit relations means the disappearance of what was formerly an export-inducing factor. Remittances will no longer have to be made in anything like the volume of pre-war times from the United States to Europe on account of interest and profits derived from foreign investments in this country. The only way in which international financing might continue to work in this same direction would be through large fresh loans on capital account from the United States to European countries; in other words, through a reversal of our position not only on income account, but on capital account as well. I have already expressed my skepticism with regard to the common expectation that loans will be made by the United States on a great scale during the immediate future,—no longer for purposes connected with the war but for the ordinary purposes of investment. Doubtless there will be a considerable flare-up of such advances during the first stage of post-war dealings; thereafter probably a slackened movement. No one can predict what proportions transactions of

this kind will assume. In their absence, or in the event of their assuming no vast dimensions, the outcome of the sudden change from a debtor to a creditor position, through its combined influence on principal and interest, will be, to repeat, in the direction of increasing imports and rising prices.

The entire series of changes which thus result from the shift of the United States from a debtor to a creditor position are quite beyond the range of experience. In all past operations of the kind, such transitions have been spread over a period of many years, indeed over generations. With us the change has taken place abruptly. The corresponding change in our merchandise balance and in our general international balance has not yet been effected. The readjustment of international trade to the new conditions must still be awaited. And this readjustment, which is the real and substantial one, cannot take place with the same abruptness as the financial shift which is its impelling cause. Some years are likely to elapse before a new and fairly stable equilibrium of merchandise balances is reached. And during this period, it need hardly be said, new forces may enter or old ones may become stronger or weaker. The ultimate outcome will be the result of many and interwoven factors.

One element in the situation has an influence peculiarly difficult of prediction. This is the underlying and dominant one of the demand for international commodities in the United States on the one hand, in foreign countries on the other. The foreign demand for our goods may become keener, our own demand for foreign goods less keen. Or precisely the opposite combination may appear: our demand for foreign goods may become keener and their demand for ours less keen. I suspect that during the pre-war period, and indeed throughout the period from 1873 to 1913, the foreign demand for our goods was not only great, but was tending to become greater year by year. It was this circumstance which seems to have made it comparatively easy for the United States to meet the heavy international debit charges of that period. During the war, further, the foreign demand for our goods was abnormal, almost insatiable. And so it has remained also during the period immediately succeeding the war. But what will be the situation when the world once

again settles down? What is to be expected two or three years from now, what five or ten years from now? It is certain that nothing like the demand of the war period is to be expected under the conditions of peace. It would seem probable, in view of the industrial conditions to be foreseen for the next decade or two, that there will be relaxation as compared with the intensive demand of the pre-war period. European countries will go through a long and trying period of recuperation and economy. Their demand for American goods promises at most only to equal in intensity that of the pre-war period. On this score we can hardly expect a turn of events such as will offset the less unpredictable changes noted in the preceding paragraphs.

# PART II

## FREE TRADE AND PROTECTION

## VIII

## SMITH: OF THE PRINCIPLE OF THE COMMERCIAL, OR MERCANTILE SYSTEM[1]

* * * * * * * * * * *

THAT wealth consists in money, or in gold and silver, is a popular notion which naturally arises from the double function of money, as the instrument of commerce and as the measure of value. In consequence of its being the instrument of commerce, when we have money we can more readily obtain whatever else we have occasion for than by means of any other commodity. The great affair, we always find, is to get money. When that is obtained, there is no difficulty in making any subsequent purchase. In consequence of its being the measure of value, we estimate that of all other commodities by the quantity of money which they will exchange for. We say of a rich man that he is worth a great deal, and of a poor man that he is worth very little money. A frugal man, or a man eager to be rich, is said to love money; and a careless, a generous, or a profuse man, is said to be indifferent about it. To grow rich is to get money; and wealth and money, in short, are, in common language, considered as in every respect synonymous.

A rich country, in the same manner as a rich man, is supposed to be a country abounding in money; and to heap up gold and silver in any country is supposed to be the readiest way to enrich it. For some time after the discovery of America, the first inquiry of the Spaniards, when they arrived upon any unknown coast, used to be, if there was any gold or silver to be found in the neighbourhood.

[1] Adam Smith (1723–1790), Wealth of Nations (1776), Bk. IV, chap. i.

By the information which they received, they judged whether it was worth while to make a settlement there, or if the country was worth the conquering. Plano Carpino, a monk, sent ambassador from the King of France to one of the sons of the famous Gengis Khan, says that the Tartars used frequently to ask him if there was plenty of sheep and oxen in the kingdom of France? Their inquiry had the same object with that of the Spaniards. They wanted to know if the country was rich enough to be worth the conquering. Among the Tartars, as among all other nations of shepherds, who are generally ignorant of the use of money, cattle are the instruments of commerce and the measures of value. Wealth, therefore, according to them, consisted in cattle, as according to the Spaniards it consisted in gold and silver. Of the two, the Tartar notion, perhaps, was the nearest to the truth.

Mr. Locke remarks a distinction between money and other movable goods. All other movable goods, he says, are of so consumable a nature that the wealth which consists in them cannot be much depended on, and a nation which abounds in them one year may, without any exportation, but merely by their own waste and extravagance, be in great want of them the next. Money, on the contrary, is a steady friend, which, though it may travel about from hand to hand, yet if it can be kept from going out of the country, is not very liable to be wasted and consumed. Gold and silver, therefore, are, according to him, the most solid and substantial part of the movable wealth of a nation, and to multiply those metals ought, he thinks, upon that account, to be the great object of its political economy.

Others admit that if a nation could be separated from all the world, it would be of no consequence how much, or how little money circulated in it. The consumable goods which were circulated by means of this money would only be exchanged for a greater or a smaller number of pieces; but the real wealth or poverty of the country, they allow, would depend altogether upon the abundance or scarcity of those consumable goods. But it is otherwise, they think, with countries which have connections with foreign nations, and which are obliged to carry on foreign wars, and to maintain fleets and armies in distant countries. This, they say, cannot be done, but by sending abroad money to pay them with; and a nation

cannot send much money abroad unless it has a good deal at home. Every such nation, therefore, must endeavour in time of peace to accumulate gold and silver that, when occasion requires, it may have wherewithal to carry on foreign wars.

In consequence of these popular notions, all the different nations of Europe have studied, though to little purpose, every possible means of accumulating gold and silver in their respective countries. Spain and Portugal, the proprietors of the principal mines which supply Europe with those metals, have either prohibited their exportation under the severest penalties, or subjected it to a considerable duty. The like prohibition seems anciently to have made a part of the policy of most other European nations. It is even to be found, where we should least of all expect to find it, in some old Scotch acts of parliament, which forbid under heavy penalties the carrying gold or silver *forth of the kingdom*. The like policy anciently took place both in France and England.

When those countries became commercial, the merchants found this prohibition, upon many occasions, extremely inconvenient. They could frequently buy more advantageously with gold and silver than with any other commodity the foreign goods which they wanted, either to import into their own, or to carry to some other foreign country. They remonstrated, therefore, against this prohibition as hurtful to trade.

They represented, first, that the exportation of gold and silver in order to purchase foreign goods, did not always diminish the quantity of those metals in the kingdom. That, on the contrary, it might frequently increase that quantity; because, if the consumption of foreign goods was not thereby increased in the country, those goods might be re-exported to foreign countries, and, being there sold for a large profit, might bring back much more treasure than was originally sent out to purchase them. Mr. Mun compares this operation of foreign trade to the seed-time and harvest of agriculture. "If we only behold," says he, "the actions of the husbandman in the seed-time, when he casteth away much good corn into the ground, we shall account him rather a madman than a husbandman. But when we consider his labours in the harvest, which is the end of his endeavours, we shall find the worth and plentiful increase of his actions."

They represented, secondly, that this prohibition could not hinder the exportation of gold and silver, which, on account of the smallness of their bulk in proportion to their value, could easily be smuggled abroad. That this exportation could only be prevented by a proper attention to, what they called, the balance of trade. That when the country exported to a greater value than it imported, a balance became due to it from foreign nations, which was necessarily paid to it in gold and silver, and thereby increased the quantity of those metals in the kingdom. But that when it imported to a greater value than it exported, a contrary balance became due to foreign nations, which was necessarily paid to them in the same manner, and thereby diminished that quantity. That in this case to prohibit the exportation of those metals could not prevent it, but only, by making it more dangerous, render it more expensive. That the exchange was thereby turned more against the country which owed the balance than it otherwise might have been; the merchant who purchased a bill upon the foreign country being obliged to pay the banker who sold it, not only for the natural risk, trouble, and expense of sending the money thither, but for the extraordinary risk arising from the prohibition. But that the more the exchange was against any country, the more the balance of trade became necessarily against it; the money of that country becoming necessarily of so much less value in comparison with that of the country to which the balance was due. That if the exchange between England and Holland, for example, was five per cent. against England, it would require a hundred and five ounces of silver in England to purchase a bill for a hundred ounces of silver in Holland: that a hundred and five ounces of silver in England, therefore, would be worth only a hundred ounces of silver in Holland, and would purchase only a proportionable quantity of Dutch goods; but that a hundred ounces of silver in Holland, on the contrary, would be worth a hundred and five ounces in England, and would purchase a proportionable quantity of English goods: that the English goods which were sold to Holland would be sold so much cheaper; and the Dutch goods which were sold to England so much dearer by the difference of the exchange; that the one would draw so much less Dutch money to England, and the other so much

more English money to Holland, as this difference amounted to: and that the balance of trade, therefore, would necessarily be so much more against England, and would require a greater balance of gold and silver to be exported to Holland.

Those arguments were partly solid and partly sophistical. They were solid so far as they asserted that the exportation of gold and silver in trade might frequently be advantageous to the country. They were solid, too, in asserting that no prohibition could prevent their exportation when private people found any advantage in exporting them. But they were sophistical in supposing that either to preserve or to augment the quantity of those metals required more the attention of government than to preserve or to augment the quantity of any other useful commodities, which the freedom of trade, without any such attention, never fails to supply in the proper quantity. They were sophistical too, perhaps, in asserting that the high price of exchange necessarily increased what they called the unfavourable balance of trade, or occasioned the exportation of a greater quantity of gold and silver. That high price, indeed, was extremely disadvantageous to the merchants who had any money to pay in foreign countries. They paid so much dearer for the bills which their bankers granted them upon those countries. But though the risk arising from the prohibition might occasion some extraordinary expense to the bankers, it would not necessarily carry any more money out of the country. This expense would generally be all laid out in the country, in smuggling the money out of it, and could seldom occasion the exportation of a single sixpence beyond the precise sum drawn for. The high price of exchange too would naturally dispose the merchants to endeavour to make their exports nearly balance their imports, in order that they might have this high exchange to pay upon as small a sum as possible. The high price of exchange, besides, must necessarily have operated as a tax, in raising the price of foreign goods, and thereby diminishing their consumption. It would tend, therefore, not to increase but to diminish what they called the unfavourable balance of trade, and consequently the exportation of gold and silver.

Such as they were, however, those arguments convinced the people to whom they were addressed. They were addressed by merchants

to parliaments and to the councils of princes, to nobles and to country gentlemen, by those who were supposed to understand trade to those who were conscious to themselves that they knew nothing about the matter. That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen as well as to the merchants; but how, or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But to know in what manner it enriched the country was no part of their business. This subject never came into their consideration but when they had occasion to apply to their country for some change in the laws relating to foreign trade. It then became necessary to say something about the beneficial effects of foreign trade, and the manner in which those effects were obstructed by the laws as they then stood. To the judges who were to decide the business it appeared a most satisfactory account of the matter, when they were told that foreign trade brought money into the country, but that the laws in question hindered it from bringing so much as it otherwise would do. Those arguments therefore produced the wished-for effect. The prohibition of exporting gold and silver was in France and England confined to the coin of those respective countries. The exportation of foreign coin and of bullion was made free. In Holland, and in some other places, this liberty was extended even to the coin of the country. The attention of government was turned away from guarding against the exportation of gold and silver to watch over the balance of trade as the only cause which could occasion any augmentation or diminution of those metals. From one fruitless care it was turned away to another care much more intricate, much more embarrassing, and just equally fruitless. The title of Mun's book, *England's Treasure in Foreign Trade*, became a fundamental maxim in the political economy, not of England only, but of all other commercial countries. The inland or home trade, the most important of all, the trade in which an equal capital affords the greatest revenue, and creates the greatest employment to the people of the country, was considered as subsidiary only to foreign trade. It neither brought money into the country, it was said, nor carried any out of it. The country, therefore, could never become either

richer or poorer by means of it, except so far as its prosperity or decay might indirectly influence the state of foreign trade.

A country that has no mines of its own must undoubtedly draw its gold and silver from foreign countries in the same manner as one that has no vineyards of its own must draw its wines. It does not seem necessary, however, that the attention of government should be more turned towards the one than towards the other object. A country that has wherewithal to buy wine will always get the wine which it has occasion for; and a country that has wherewithal to buy gold and silver will never be in want of those metals. They are to be bought for a certain price like all other commodities, and as they are the price of all other commodities, so all other commodities are the price of those metals. We trust with perfect security that the freedom of trade, without any attention of government, will always supply us with the wine which we have occasion for: and we may trust with equal security that it will always supply us with all the gold and silver which we can afford to purchase or to employ, either in circulating our commodities, or in other uses.

The quantity of every commodity which human industry can either purchase or produce naturally regulates itself in every country according to the effectual demand, or according to the demand of those who are willing to pay the whole rent, labour, and profits which must be paid in order to prepare and bring it to market. But no commodities regulate themselves more easily or more exactly according to this effectual demand than gold and silver; because, on account of the small bulk and great value of those metals, no commodities can be more easily transported from one place to another, from the places where they are cheap to those where they are dear, from the places where they exceed to those where they fall short of this effectual demand. If there were in England, for example, an effectual demand for an additional quantity of gold, a packet-boat could bring from Lisbon, or from wherever else it was to be had, fifty tons of gold, which could be coined into more than five millions of guineas. But if there were an effectual demand for grain to the same value, to import it would require, at five guineas a ton, a million of tons of shipping, or a thousand ships of a thousand tons each. The navy of England would not be sufficient.

When the quantity of gold and silver imported into any country exceeds the effectual demand, no vigilance of government can prevent their exportation. All the sanguinary laws of Spain and Portugal are not able to keep their gold and silver at home. The continual importations from Peru and Brazil exceed the effectual demand of those countries, and sink the price of those metals there below that in the neighbouring countries. If, on the contrary, in any particular country their quantity fell short of the effectual demand, so as to raise their price above that of the neighbouring countries, the government would have no occasion to take any pains to import them. If it were even to take pains to prevent their importation, it would not be able to effectuate it. Those metals, when the Spartans had got wherewithal to purchase them, broke through all the barriers which the laws of Lycurgus opposed to their entrance into Lacedemon. All the sanguinary laws of the customs are not able to prevent the importation of the teas of the Dutch and Gottenburgh East India companies, because somewhat cheaper than those of the British company. A pound of tea, however, is about a hundred times the bulk of one of the highest prices, sixteen shillings, that is commonly paid for it in silver, and more than two thousand times the bulk of the same price in gold, and consequently just so many times more difficult to smuggle.

It is partly owing to the easy transportation of gold and silver from the places where they abound to those where they are wanted that the price of those metals does not fluctuate continually like that of the greater part of other commodities, which are hindered by their bulk from shifting their situation when the market happens to be either over or under-stocked with them. The price of those metals, indeed, is not altogether exempted from variation, but the changes to which it is liable are generally slow, gradual, and uniform. In Europe, for example, it is supposed, without much foundation, perhaps, that during the course of the present and preceding century they have been constantly, but gradually, sinking in their value, on account of the continual importations from the Spanish West Indies. But to make any sudden change in the price of gold and silver, so as to raise or lower at once, sensibly and remarkably, the money price of all other commodities, requires such a revolution in commerce as that occasioned by the discovery of America.

If, notwithstanding all this, gold and silver should at any time fall short in a country which has wherewithal to purchase them, there are more expedients for supplying their place than that of almost any other commodity. If the materials of manufacture are wanted, industry must stop. If provisions are wanted, the people must starve. But if money is wanted, barter will supply its place, though with a good deal of inconveniency. Buying and selling upon credit, and the different dealers compensating their credits with one another, once a month or once a year, will supply it with less inconveniency. A well-regulated paper money will supply it, not only without any inconvenience, but, in some cases, with some advantages. Upon every account, therefore, the attention of government never was so unnecessarily employed as when directed to watch over the preservation or increase of the quantity of money in any country.

No complaint, however, is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who have neither wherewithal to buy it nor credit to borrow it. Those who have either will seldom be in want either of the money or of the wine which they have occasion for. This complaint, however, of the scarcity of money is not always confined to improvident spendthrifts. It is sometimes general through a whole mercantile town and the country in its neighbourhood. Over-trading is the common cause of it. Sober men, whose projects have been disproportioned to their capitals, are as likely to have neither wherewithal to buy money nor credit to borrow it, as prodigals whose expense has been disproportioned to their revenue. Before their projects can be brought to bear, their stock is gone, and their credit with it. They run about everywhere to borrow money, and everybody tells them that they have none to lend. Even such general complaints of the scarcity of money do not always prove that the usual number of gold and silver pieces are not circulating in the country, but that many people want those pieces who have nothing to give for them. When the profits of trade happen to be greater than ordinary, over-trading becomes a general error both among great and small dealers. They do not always send more money abroad than usual, but they buy upon credit, both at home and abroad, an unusual quantity of goods, which they send to some distant market in hopes that the

returns will come in before the demand for payment. The demand comes before the returns, and they have nothing at hand with which they can either purchase money, or give solid security for borrowing. It is not any scarcity of gold and silver, but the difficulty which such people find in borrowing, and which their creditors find in getting payment, that occasions the general complaint of the scarcity of money.

It would be too ridiculous to go about seriously to prove that wealth does not consist in money, or in gold and silver; but in what money purchases, and is valuable only for purchasing. Money, no doubt, makes always a part of the national capital; but it has already been shown that it generally makes but a small part, and always the most unprofitable part of it.

It is not because wealth consists more essentially in money than in goods that the merchant finds it generally more easy to buy goods with money than to buy money with goods; but because money is the known and established instrument of commerce, for which everything is readily given in exchange, but which is not always with equal readiness to be got in exchange for everything. The greater part of goods, besides, are more perishable than money, and he may frequently sustain a much greater loss by keeping them. When his goods are upon hand, too, he is more liable to such demands for money as he may not be able to answer than when he has got their price in his coffers. Over and above all this, his profit arises more directly from selling than from buying, and he is upon all these accounts generally much more anxious to exchange his goods for money than his money for goods. But though a particular merchant, with abundance of goods in his warehouse, may sometimes be ruined by not being able to sell them in time, a nation or country is not liable to the same accident. The whole capital of a merchant frequently consists in perishable goods destined for purchasing money. But it is but a very small part of the annual produce of the land and labour of a country which can ever be destined for purchasing gold and silver from their neighbours. The far greater part is circulated and consumed among themselves; and even of the surplus which is sent abroad, the greater part is generally destined for the purchase of other foreign goods. Though gold and silver, therefore, could not be had in exchange for the goods destined to purchase

them, the nation would not be ruined. It might, indeed, suffer some loss and inconveniency, and be forced upon some of those expedients which are necessary for supplying the place of money. The annual produce of its land and labour, however, would be the same, or very nearly the same, as usual, because the same, or very nearly the same, consumable capital would be employed in maintaining it. And though goods do not always draw money so readily as money draws goods, in the long run they draw it more necessarily than even it draws them. Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods. Money, therefore, necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys does not always mean to sell again, but frequently to use or to consume; whereas he who sells always means to buy again. The one may frequently have done the whole, but the other can never have done more than the one-half of his business. It is not for its own sake that men desire money, but for the sake of what they can purchase with it.

Consumable commodities, it is said, are soon destroyed; whereas gold and silver are of a more durable nature, and, were it not for this continual exportation, might be accumulated for ages together, to the incredible augmentation of the real wealth of the country. Nothing, therefore, it is pretended, can be more disadvantageous to any country than the trade which consists in the exchange of such lasting for such perishable commodities. We do not, however, reckon that trade disadvantageous which consists in the exchange of the hardware of England for the wines of France; and yet hardware is a very durable commodity, and were it not for this continual exportation might, too, be accumulated for ages together, to the incredible augmentation of the pots and pans of the country. But it readily occurs that the number of such utensils is in every country necessarily limited by the use which there is for them; that it would be absurd to have more pots and pans than were necessary for cooking the victuals usually consumed there; and that if the quantity of victuals were to increase, the number of pots and pans would readily increase along with it, a part of the increased quantity of victuals being employed in purchasing them, or in maintaining an additional number of workmen whose business it was to make them.

It should as readily occur that the quantity of gold and silver is in every country limited by the use which there is for those metals; that their use consists in circulating commodities as coin, and in affording a species of household furniture as plate; that the quantity of coin in every country is regulated by the value of the commodities which are to be circulated by it: increase that value, and immediately a part of it will be sent abroad to purchase, wherever it is to be had, the additional quantity of coin requisite for circulating them: that the quantity of plate is regulated by the number and wealth of those private families who choose to indulge themselves in that sort of magnificence: increase the number and wealth of such families, and a part of this increased wealth will most probably be employed in purchasing, wherever it is to be found, an additional quantity of plate: that to attempt to increase the wealth of any country, either by introducing or by detaining in it an unnecessary quantity of gold and silver, is as absurd as it would be to attempt to increase the good cheer of private families by obliging them to keep an unnecessary number of kitchen utensils. As the expense of purchasing those unnecessary utensils would diminish instead of increasing either the quantity or goodness of the family provisions, so the expense of purchasing an unnecessary quantity of gold and silver must, in every country, as necessarily diminish the wealth which feeds, clothes, and lodges, which maintains and employs the people. Gold and silver, whether in the shape of coin or of plate, are utensils, it must be remembered, as much as the furniture of the kitchen. Increase the use for them, increase the consumable commodities which are to be circulated, managed, and prepared by means of them, and you will infallibly increase the quantity; but if you attempt, by extraordinary means, to increase the quantity, you will as infallibly diminish the use and even the quantity too, which in those metals can never be greater than what the use requires. Were they ever to be accumulated beyond this quantity, their transportation is so easy, and the loss which attends their lying idle and unemployed so great, that no law could prevent their being immediately sent out of the country.

It is not always necessary to accumulate gold and silver in order to enable a country to carry on foreign wars, and to maintain fleets and armies in distant countries. Fleets and armies are maintained,

not with gold and silver, but with consumable goods. The nation which, from the annual produce of its domestic industry, from the annual revenue arising out of its lands, labour, and consumable stock, has wherewithal to purchase those consumable goods in distant countries, can maintain foreign wars there.

A nation may purchase the pay and provisions of an army in a distant country three different ways: by sending abroad either, first, some part of its accumulated gold and silver; or, secondly, some part of the annual produce of its manufactures; or, last of all, some part of its annual rude produce.

The gold and silver which can properly be considered as accumulated or stored up in any country may be distinguished into three parts: first, the circulating money; secondly, the plate of private families; and, last of all, the money which may have been collected by many years parsimony, and laid up in the treasury of the prince.

It can seldom happen that much can be spared from the circulating money of the country; because in that there can seldom be much redundancy. The value of goods annually bought and sold in any country requires a certain quantity of money to circulate and distribute them to their proper consumers, and can give employment to no more. The channel of circulation necessarily draws to itself a sum sufficient to fill it, and never admits any more. Something, however, is generally withdrawn from this channel in the case of foreign war. By the great number of people who are maintained abroad, fewer are maintained at home. Fewer goods are circulated there, and less money becomes necessary to circulate them. An extraordinary quantity of paper money, of some sort or other, such as exchequer notes, navy bills, and bank bills in England, is generally issued upon such occasions, and by supplying the place of circulating gold and silver, gives an opportunity of sending a greater quantity of it abroad. All this, however, could afford but a poor resource for maintaining a foreign war of great expense and several years duration.

The melting down the plate of private families has upon every occasion been found a still more insignificant one. The French, in the beginning of the last war, did not derive so much advantage from this expedient as to compensate the loss of the fashion.

The accumulated treasures of the prince have, in former times, afforded a much greater and more lasting resource. In the present times, if you except the king of Prussia, to accumulate treasure seems to be no part of the policy of European princes.

The funds which maintained the foreign wars of the present century, the most expensive perhaps which history records, seem to have had little dependency upon the exportation either of the circulating money, or of the plate of private families, or of the treasure of the prince. The last French war cost Great Britain upwards of ninety millions, including not only the seventy-five millions of new debt that was contracted, but the additional two shillings in the pound land-tax, and what was annually borrowed of the sinking fund. More than two-thirds of this expense were laid out in distant countries; in Germany, Portugal, America, in the ports of the Mediterranean, in the East and West Indies. The kings of England had no accumulated treasure. We never heard of any extraordinary quantity of plate being melted down. The circulating gold and silver of the country had not been supposed to exceed eighteen millions. Since the late recoinage of the gold, however, it is believed to have been a good deal under-rated. Let us suppose, therefore, according to the most exaggerated computation which I remember to have either seen or heard of, that, gold and silver together, it amounted to thirty millions. Had the war been carried on by means of our money, the whole of it must, even according to this computation, have been sent out and returned again at least twice in a period of between six and seven years. Should this be supposed, it would afford the most decisive argument to demonstrate how unnecessary it is for government to watch over the preservation of money, since upon this supposition the whole money of the country must have gone from it and returned to it again, two different times in so short a period, without anybody's knowing anything of the matter. The channel of circulation, however, never appeared more empty than usual during any part of this period. Few people wanted money who had wherewithal to pay for it. The profits of foreign trade, indeed, were greater than usual during the whole war; but especially towards the end of it. This occasioned, what it always occasions, a general over-trading in all the parts of Great Britain; and this again occasioned the usual complaint of the scarcity of money, which always

follows over-trading. Many people wanted it, who had neither wherewithal to buy it, nor credit to borrow it; and because the debtors found it difficult to borrow, the creditors found it difficult to get payment. Gold and silver, however, were generally to be had for their value, by those who had that value to give for them.

The enormous expense of the late war, therefore, must have been chiefly defrayed, not by the exportation of gold and silver, but by that of British commodities of some kind or other. When the government, or those who acted under them, contracted with a merchant for a remittance to some foreign country, he would naturally endeavour to pay his foreign correspondent, upon whom he had granted a bill, by sending abroad rather commodities than gold and silver. If the commodities of Great Britain were not in demand in that country, he would endeavour to send them to some other country, in which he could purchase a bill upon that country. The transportation of commodities, when properly suited to the market, is always attended with a considerable profit; whereas that of gold and silver is scarce ever attended with any. When those metals are sent abroad in order to purchase foreign commodities, the merchant's profit arises, not from the purchase, but from the sale of the returns. But when they are sent abroad merely to pay a debt, he gets no returns, and consequently no profit. He naturally, therefore, exerts his invention to find out a way of paying his foreign debts rather by the exportation of commodities than by that of gold and silver. The great quantity of British goods exported during the course of the late war, without bringing back any returns, is accordingly remarked by the author of *The Present State of the Nation.*

Besides the three sorts of gold and silver above mentioned, there is in all great commercial countries a good deal of bullion alternately imported and exported for the purposes of foreign trade. This bullion, as it circulates among different commercial countries in the same manner as the national coin circulates in every particular country, may be considered as the money of the great mercantile republic. The national coin receives its movement and direction from the commodities circulated within the precincts of each particular country: the money of the mercantile republic, from those circulated between different countries. Both are employed in

facilitating exchanges, the one between different individuals of the same, the other between those of different nations. Part of this money of the great mercantile republic may have been, and probably was, employed in carrying on the late war. In time of a general war, it is natural to suppose that a movement and direction should be impressed upon it, different from what it usually follows in profound peace; that it should circulate more about the seat of the war, and be more employed in purchasing there, and in the neighbouring countries, the pay and provisions of the different armies. But whatever part of this money of the mercantile republic Great Britain may have annually employed in this manner, it must have been annually purchased, either with British commodities, or with something else that had been purchased with them; which still brings us back to commodities, to the annual produce of the land and labour of the country, as the ultimate resources which enabled us to carry on the war. It is natural indeed to suppose that so great an annual expense must have been defrayed from a great annual produce. The expense of 1761, for example, amounted to more than nineteen millions. No accumulation could have supported so great an annual profusion. There is no annual produce even of gold and silver which could have supported it. The whole gold and silver annually imported into both Spain and Portugal, according to the best accounts, does not commonly much exceed six millions sterling, which, in some years, would scarce have paid four months' expense of the late war.

The commodities most proper for being transported to distant countries, in order to purchase there either the pay and provisions of an army, or some part of the money of the mercantile republic to be employed in purchasing them, seem to be the finer and more improved manufactures; such as contain a great value in a small bulk, and can, therefore, be exported to a great distance at little expense. A country whose industry produces a great annual surplus of such manufactures, which are usually exported to foreign countries, may carry on for many years a very expensive foreign war without either exporting any considerable quantity of gold and silver, or even having any such quantity to export. A considerable part of the annual surplus of its manufactures must, indeed, in this case be exported without bringing back any returns to the country, though it does to the merchant; the government purchasing of the

merchant his bills upon foreign countries, in order to purchase there the pay and provisions of an army. Some part of this surplus, however, may still continue to bring back a return. The manufacturers, during the war, will have a double demand upon them, and be called upon, first, to work up goods to be sent abroad, for paying the bills drawn upon foreign countries for the pay and provisions of the army; and, secondly, to work up such as are necessary for purchasing the common returns that had usually been consumed in the country. In the midst of the most destructive foreign war, therefore, the greater part of manufactures may frequently flourish greatly; and, on the contrary, they may decline on the return of the peace. They may flourish amidst the ruin of their country, and begin to decay upon the return of its prosperity. The different state of many different branches of the British manufactures during the late war, and for some time after the peace, may serve as an illustration of what has been just now said.

No foreign war of great expense or duration could conveniently be carried on by the exportation of the rude produce of the soil. The expense of sending such a quantity of it to a foreign country as might purchase the pay and provisions of an army would be too great. Few countries produce much more rude produce than what is sufficient for the subsistence of their own inhabitants. To send abroad any great quantity of it, therefore, would be to send abroad a part of the necessary subsistence of the people. It is otherwise with the exportation of manufactures. The maintenance of the people employed in them is kept at home, and only the surplus part of their work is exported. Mr. Hume frequently takes notice of the inability of the ancient kings of England to carry on, without interruption, any foreign war of long duration. The English, in those days, had nothing wherewithal to purchase the pay and provisions of their armies in foreign countries, but either the rude produce of the soil, of which no considerable part could be spared from the home consumption, or a few manufactures of the coarsest kind, of which, as well as of the rude produce, the transportation was too expensive. This inability did not arise from the want of money, but of the finer and more improved manufactures. Buying and selling was transacted by means of money in England then as well as now. The quantity of circulating money must have borne

the same proportion to the number and value of purchases and sales usually transacted at that time, which it does to those transacted at present; or rather it must have borne a greater proportion, because there was then no paper, which now occupies a great part of the employment of gold and silver. Among nations to whom commerce and manufactures are little known, the sovereign, upon extraordinary occasions, can seldom draw any considerable aid from his subjects, for reasons which shall be explained hereafter. It is in such countries, therefore, that he generally endeavours to accumulate a treasure, as the only resource against such emergencies. Independent of this necessity, he is in such a situation naturally disposed to the parsimony requisite for accumulation. In that simple state, the expense even of a sovereign is not directed by the vanity which delights in the gaudy finery of a court, but is employed in bounty to his tenants, and hospitality to his retainers. But bounty and hospitality very seldom lead to extravagance; though vanity almost always does. Every Tartar chief, accordingly, has a treasure. The treasures of Mazepa, chief of the Cossacks in the Ukraine, the famous ally of Charles the XII., are said to have been very great. The French kings of the Merovingian race had all treasures. When they divided their kingdom among their different children, they divided their treasure too. The Saxon princes, and the first kings after the conquest, seem likewise to have accumulated treasures. The first exploit of every new reign was commonly to seize the treasure of the preceding king, as the most essential measure for securing the succession. The sovereigns of improved and commercial countries are not under the same necessity of accumulating treasures, because they can generally draw from their subjects extraordinary aids upon extraordinary occasions. They are likewise less disposed to do so. They naturally, perhaps necessarily, follow the mode of the times, and their expense comes to be regulated by the same extravagant vanity which directs that of all the other great proprietors in their dominions. The insignificant pageantry of their court becomes every day more brilliant, and the expense of it not only prevents accumulation, but frequently encroaches upon the funds destined for more necessary expenses. What Dercyllidas said of the court of Persia may be applied to that of several European princes, that he saw there much splendour but little strength, and many servants but few soldiers.

The importation of gold and silver is not the principal, much less the sole benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments. By means of it the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society. These great and important services foreign trade is continually occupied in performing to all the different countries between which it is carried on. They all derive great benefit from it, though that in which the merchant resides generally derives the greatest, as he is generally more employed in supplying the wants, and carrying out the superfluities of his own, than of any other particular country. To import the gold and silver which may be wanted into the countries which have no mines is, no doubt, a part of the business of foreign commerce. It is, however, a most insignificant part of it. A country which carried on foreign trade merely upon this account could scarce have occasion to freight a ship in a century.

It is not by the importation of gold and silver that the discovery of America has enriched Europe. By the abundance of the American mines, those metals have become cheaper. A service of plate can now be purchased for about a third part of the corn, or a third part of the labour, which it would have cost in the fifteenth century. With the same annual expense of labour and commodities, Europe can annually purchase about three times the quantity of plate which it could have purchased at that time. But when a commodity comes to be sold for a third part of what had been its usual price, not only those who purchased it before can purchase three times their former quantity, but it is brought down to the level of a much greater

number of purchasers, perhaps to more than ten, perhaps to more than twenty times the former number. So that there may be in Europe at present not only more than three times, but more than twenty or thirty times the quantity of plate which would have been in it, even in its present state of improvement, had the discovery of the American mines never been made. So far Europe has, no doubt, gained a real conveniency, though surely a very trifling one. The cheapness of gold and silver renders those metals rather less fit for the purposes of money than they were before. In order to make the same purchases, we must load ourselves with a greater quantity of them, and carry about a shilling in our pocket where a groat would have done before. It is difficult to say which is most trifling, this inconveniency or the opposite conveniency. Neither the one nor the other could have made any very essential change in the state of Europe. The discovery of America, however, certainly made a most essential one. By opening a new and inexhaustible market to all the commodities of Europe, it gave occasion to new divisions of labour and improvements of art, which, in the narrow circle of the ancient commerce, could never have taken place for want of a market to take off the greater part of their produce. The productive powers of labour were improved, and its produce increased in all the different countries of Europe, and together with it the real revenue and wealth of the inhabitants. The commodities of Europe were almost all new to America, and many of those of America were new to Europe. A new set of exchanges, therefore, began to take place which had never been thought of before, and which should naturally have proved as advantageous to the new, as it certainly did to the old continent. The savage injustice of the Europeans rendered an event, which ought to have been beneficial to all, ruinous and destructive to several of those unfortunate countries.

The discovery of a passage to the East Indies by the Cape of Good Hope, which happened much about the same time, opened perhaps a still more extensive range to foreign commerce than even that of America, notwithstanding the greater distance. There were but two nations in America in any respect superior to savages, and these were destroyed almost as soon as discovered. The rest were mere savages. But the empires of China, Indostan, Japan, as well as several others in the East Indies, without having richer mines of

gold or silver, were in every other respect much richer, better cultivated, and more advanced in all arts and manufactures than either Mexico or Peru, even though we should credit, what plainly deserves no credit, the exaggerated accounts of the Spanish writers concerning the ancient state of those empires. But rich and civilised nations can always exchange to a much greater value with one another than with savages and barbarians. Europe, however, has hitherto derived much less advantage from its commerce with the East Indies than from that with America. The Portuguese monopolised the East India trade to themselves for about a century, and it was only indirectly and through them that the other nations of Europe could either send out or receive any goods from that country. When the Dutch, in the beginning of the last century, began to encroach upon them, they vested their whole East India commerce in an exclusive company. The English, French, Swedes, and Danes have all followed their example, so that no great nation in Europe has ever yet had the benefit of a free commerce to the East Indies. No other reason need be assigned why it has never been so advantageous as the trade to America, which, between almost every nation of Europe and its own colonies, is free to all its subjects. The exclusive privileges of those East India companies, their great riches, the great favour and protection which these have procured them from their respective governments, have excited much envy against them. This envy has frequently represented their trade as altogether pernicious, on account of the great quantities of silver which it every year exports from the countries from which it is carried on. The parties concerned have replied that their trade, by this continual exportation of silver, might indeed tend to impoverish Europe in general, but not the particular country from which it was carried on; because, by the exportation of a part of the returns to other European countries, it annually brought home a much greater quantity of that metal than it carried out. Both the objection and the reply are founded in the popular notion which I have been just now examining. It is therefore unnecessary to say anything further about either. By the annual exportation of silver to the East Indies, plate is probably somewhat dearer in Europe than it otherwise might have been; and coined silver probably purchases a larger quantity both of labour and commodities. The former of these two effects is a

very small loss, the latter a very small advantage; both too insignificant to deserve any part of the public attention. The trade to the East Indies, by opening a market to the commodities of Europe, or, what comes nearly to the same thing, to the gold and silver which is purchased with those commodities, must necessarily tend to increase the annual production of European commodities, and consequently the real wealth and revenue of Europe. That it has hitherto increased them so little is probably owing to the restraints which it everywhere labours under.

I thought it necessary, though at the hazard of being tedious, to examine at full length this popular notion that wealth consists in money, or in gold and silver. Money in common language, as I have already observed, frequently signifies wealth, and this ambiguity of expression has rendered this popular notion so familiar to us that even they who are convinced of its absurdity are very apt to forget their own principles, and in the course of their reasonings to take it for granted as a certain and undeniable truth. Some of the best English writers upon commerce set out with observing that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all different kinds. In the course of their reasonings, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce.

The two principles being established, however, that wealth consisted in gold and silver, and that those metals could be brought into a country which had no mines only by the balance of trade, or by exporting to a greater value than it imported, it necessarily became the great object of political economy to diminish as much as possible the importation of foreign goods for home consumption, and to increase as much as possible the exportation of the produce of domestic industry. Its two great engines for enriching the country, therefore, were restraints upon importation, and encouragements to exportation.

The restraints upon importation were of two kinds.

First, restraints upon the importation of such foreign goods for home consumption as could be produced at home, from whatever country they were imported.

Secondly, restraints upon the importation of goods of almost all kinds from those particular countries with which the balance of trade was supposed to be disadvantageous.

Those different restraints consisted sometimes in high duties, and sometimes in absolute prohibitions.

Exportation was encouraged sometimes by drawbacks, sometimes by bounties, sometimes by advantageous treaties of commerce with foreign states, and sometimes by the establishment of colonies in distant countries.

Drawbacks were given upon two different occasions. When the home manufactures were subject to any duty or excise, either the whole or a part of it was frequently drawn back upon their exportation; and when foreign goods liable to a duty were imported in order to be exported again, either the whole or a part of this duty was sometimes given back upon such exportation.

Bounties were given for the encouragement either of some beginning manufactures, or of such sorts of industry of other kinds as were supposed to deserve particular favour.

By advantageous treaties of commerce, particular privileges were procured in some foreign state for the goods and merchants of the country, beyond what were granted to those of other countries.

By the establishment of colonies in distant countries, not only particular privileges, but a monopoly was frequently procured for the goods and merchants of the country which established them.

The two sorts of restraints upon importation above-mentioned, together, with these four encouragements to exportation, constitute the six principal means by which the commercial system proposes to increase the quantity of gold and silver in any country by turning the balance of trade in its favour. I shall consider each of them in a particular chapter, and without taking much further notice of their supposed tendency to bring money into the country, I shall examine chiefly what are likely to be the effects of each of them upon the annual produce of its industry. According as they tend either to increase or diminish the value of this annual produce, they must evidently tend either to increase or diminish the real wealth and revenue of the country.

# SMITH: OF RESTRAINTS UPON THE IMPORTATION FROM FOREIGN COUNTRIES OF SUCH GOODS AS CAN BE PRODUCED AT HOME[1]

By restraining, either by high duties or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home market is more or less secured to the domestic industry employed in producing them. Thus the prohibition of importing either live cattle or salt provisions from foreign countries secures to the graziers of Great Britain the monopoly of the home market for butcher's meat. The high duties upon the importation of corn, which in times of moderate plenty amount to a prohibition, give a like advantage to the growers of that commodity. The prohibition of the importation of foreign woollens is equally favourable to the woollen manufacturers. The silk manufacture, though altogether employed upon foreign materials, has lately obtained the same advantage. The linen manufacture has not yet obtained it, but is making great strides towards it. Many other sorts of manufacturers have, in the same manner, obtained in Great Britain, either altogether or very nearly, a monopoly against their countrymen. The variety of goods of which the importation into Great Britain is prohibited, either absolutely, or under certain circumstances, greatly exceeds what can easily be suspected by those who are not well acquainted with the laws of the customs.

That this monopoly of the home market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns towards that employment a greater share of both the labour and stock of the society than would otherwise have gone to it, cannot be doubted. But whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident.

The general industry of the society never can exceed what the capital of the society can employ. As the number of workmen that can be kept in employment by any particular person must bear

[1] Smith, Wealth of Nations, Bk. IV, chap. ii.

a certain proportion to his capital, so the number of those that can be continually employed by all the members of a great society must bear a certain proportion to the whole capital of that society, and never can exceed that proportion. No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone; and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord.

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society.

First, every individual endeavours to employ his capital as near home as he can, and consequently as much as he can in the support of domestic industry; provided always that he can thereby obtain the ordinary, or not a great deal less than the ordinary profits of stock.

Thus, upon equal or nearly equal profits, every wholesale merchant naturally prefers the home trade to the foreign trade of consumption, and the foreign trade of consumption to the carrying trade. In the home trade his capital is never so long out of his sight as it frequently is in the foreign trade of consumption. He can know better the character and situation of the persons whom he trusts, and if he should happen to be deceived, he knows better the laws of the country from which he must seek redress. In the carrying trade, the capital of the merchant is, as it were, divided between two foreign countries, and no part of it is ever necessarily brought home, or placed under his own immediate view and command. The capital which an Amsterdam merchant employs in carrying corn from Konnigsberg to Lisbon, and fruit and wine from Lisbon to Konnigsberg, must generally be the one-half of it at Konnigsberg and the other half at Lisbon. No part of it need ever come to Amsterdam. The natural residence of such a merchant should either be at Konnigsberg or Lisbon, and it

can only be some very particular circumstances which can make him prefer the residence of Amsterdam. The uneasiness, however, which he feels at being separated so far from his capital generally determines him to bring part both of the Konnigsberg goods which he destines for the market of Lisbon, and of the Lisbon goods which he destines for that of Konnigsberg, to Amsterdam: and though this necessarily subjects him to a double charge of loading and unloading, as well as to the payment of some duties and customs, yet for the sake of having some part of his capital always under his own view and command, he willingly submits to this extraordinary charge; and it is in this manner that every country which has any considerable share of the carrying trade becomes always the emporium, or general market, for the goods of all the different countries whose trade it carries on. The merchant, in order to save a second loading and unloading, endeavours always to sell in the home market as much of the goods of all those different countries as he can, and thus, so far as he can, to convert his carrying trade into a foreign trade of consumption. A merchant, in the same manner, who is engaged in the foreign trade of consumption, when he collects goods for foreign markets, will always be glad, upon equal or nearly equal profits, to sell as great a part of them at home as he can. He saves himself the risk and trouble of exportation, when, so far as he can, he thus converts his foreign trade of consumption into a home trade. Home is in this manner the centre, if I may say so, round which the capitals of the inhabitants of every country are continually circulating, and towards which they are always tending, though by particular causes they may sometimes be driven off and repelled from it towards more distant employments. But a capital employed in the home trade, it has already been shown,[1] necessarily puts into motion a greater quantity of domestic industry, and gives revenue and employment to a greater number of the inhabitants of the country, than an equal capital employed in the foreign trade of consumption: and one employed in the foreign trade of consumption has the same advantage over an equal capital employed in the carrying trade. Upon equal, or only nearly equal profits, therefore, every individual naturally inclines to employ his capital in the manner in which it is

[1] In Book II, chapter v, "Of the Different Employment of Capitals." (Ed.)

likely to afford the greatest support to domestic industry, and to give revenue and employment to the greatest number of people of his own country.

Secondly, every individual who employs his capital in the support of domestic industry, necessarily endeavours so to direct that industry that its produce may be of the greatest possible value.

The produce of industry is what it adds to the subject or materials upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit that any man employs a capital in the support of industry; and he will always, therefore, endeavour to employ it in the support of that industry of which the produce is great or small, so will likewise be the profits of the greatest quantity either of money or of other goods.

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value,

every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

To give the monopoly of the home market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, of what is the same thing, with the price of a part of it, whatever else they have occasion for.

What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished, no more than that of the above-mentioned artificers; but only left to find out the way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage when it is thus directed towards an object which it can buy cheaper

than it can make. The value of its annual produce is certainly more or less diminished when it is thus turned away from producing commodities evidently of more value than the commodity which it is directed to produce. According to the supposition, that commodity could be purchased from foreign countries cheaper than it can be made at home. It could, therefore, have been purchased with a part only of the commodities, or, what is the same thing, with a part only of the price of the commodities, which the industry employed by an equal capital would have produced at home, had it been left to follow its natural course. The industry of the country, therefore, is thus turned away from a more to a less advantageous employment, and the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation.

By means of such regulations, indeed, a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign country. But though the industry of the society may be thus carried with advantage into a particular channel sooner than it could have been otherwise, it will by no means follow that the sum total, either of its industry, or of its revenue, can ever be augmented by any such regulation. The industry of the society can augment only in proportion as its capital augments, and its capital can augment only in proportion to what can be gradually saved out of its revenue. But the immediate effect of every such regulation is to diminish its revenue, and what diminishes its revenue is certainly not very likely to augment its capital faster than it would have augmented of its own accord had both capital and industry been left to find out their natural employments.

Though for want of such regulations the society should never acquire the proposed manufacture, it would not, upon that account, necessarily be the poorer in any one period of its duration. In every period of its duration its whole capital and industry might still have been employed, though upon different objects, in the manner that was most advantageous at the time. In every period its revenue might have been the greatest which its capital could afford, and both capital and revenue might have been augmented with the greatest possible rapidity.

The natural advantages which one country has over another in producing particular commodities are sometimes so great that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, hotbeds, and hot walls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines merely to encourage the making of claret and burgundy in Scotland? But if there would be a manifest absurdity in turning towards any employment thirty times more of the capital and industry of the country than would be necessary to purchase from foreign countries an equal quantity of the commodities wanted, there must be an absurdity, though not altogether so glaring, yet exactly of the same kind, in turning towards any such employment a thirtieth, or even a three-hundredth part more of either. Whether the advantages which one country has over another be natural or acquired is in this respect of no consequence. As long as the one country has those advantages, and the other wants them, it will always be more advantageous for the latter rather to buy of the former than to make. It is an acquired advantage only, which one artificer has over his neighbour, who exercises another trade; and yet they both find it more advantageous to buy of one another than to make what does not belong to their particular trades.

Merchants and manufacturers are the people who derive the greatest advantage from this monopoly of the home market. The prohibition of the importation of foreign cattle, and of salt provisions, together with the high duties upon foreign corn, which in times of moderate plenty amount to a prohibition, are not near so advantageous to the graziers and farmers of Great Britain as other regulations of the same kind are to its merchants and manufacturers. Manufactures, those of the finer kind especially, are more easily transported from one country to another than corn or cattle. It is in the fetching and carrying manufactures, accordingly, that foreign trade is chiefly employed. In manufactures, a very small advantage will enable foreigners to undersell our own workmen, even in the home market. It will require a very great one to enable them to do so in the rude produce of the soil. If the free importation of

foreign manufactures were permitted, several of the home manufactures would probably suffer, and some of them, perhaps, go to ruin altogether, and a considerable part of the stock and industry at present employed in them would be forced to find out some other employment. But the freest importation of the rude produce of the soil could have no such effect upon the agriculture of the country.

If the importation of foreign cattle, for example, were made ever so free, so few could be imported that the grazing trade of Great Britain could be little affected by it. Live cattle are, perhaps, the only commodity of which the transportation is more expensive by sea than by land. By land they carry themselves to market. By sea, not only the cattle, but their food and their water too, must be carried at no small expense and inconveniency. The short sea between Ireland and Great Britain, indeed, renders the importation of Irish cattle more easy. But though the free importation of them, which was lately permitted only for a limited time, were rendered perpetual, it could have no considerable effect upon the interest of the graziers of Great Britain. Those parts of Great Britain which border upon the Irish Sea are all grazing countries. Irish cattle could never be imported for their use, but must be driven through those very extensive countries, at no small expense and inconveniency, before they could arrive at their proper market. Fat cattle could not be driven so far. Lean cattle, therefore, only could be imported, and such importation could interfere, not with the interest of the feeding or fattening countries, to which, by reducing the price of lean cattle, it would rather be advantageous, but with that of the breeding countries only. The small number of Irish cattle imported since their importation was permitted, together with the good price at which lean cattle still continue to sell, seem to demonstrate that even the breeding countries of Great Britain are never likely to be much affected by the free importation of Irish cattle. The common people of Ireland, indeed, are said to have sometimes opposed with violence the exportation of their cattle. But if the exporters had found any great advantage in continuing the trade, they could easily, when the law was on their side, have conquered this mobbish opposition.

Feeding and fattening countries, besides, must always be highly improved, whereas breeding countries are generally uncultivated.

The high price of lean cattle, by augmenting the value of uncultivated land, is like a bounty against improvement. To any country which was highly improved throughout, it would be more advantageous to import its lean cattle than to breed them. The province of Holland, accordingly, is said to follow this maxim at present. The mountains of Scotland, Wales, and Northumberland, indeed, are countries not capable of much improvement, and seem destined by nature to be the breeding countries of Great Britain. The freest importation of foreign cattle could have no other effect than to hinder those breeding countries from taking advantage of the increasing population and improvement of the rest of the kingdom, from raising their price to an exorbitant height, and from laying a real tax upon all the more improved and cultivated parts of the country.

The freest importation of salt provisions, in the same manner, could have as little effect upon the interest of the graziers of Great Britain as that of live cattle. Salt provisions are not only a very bulky commodity, but when compared with fresh meat, they are a commodity both of worse quality, and as they cost more labour and expense, of higher price. They could never, therefore, come into competition with the fresh meat, though they might with the salt provisions of the country. They might be used for victualling ships for distant voyages and such like uses, but could never make any considerable part of the food of the people. The small quantity of salt provisions imported from Ireland since their importation was rendered free is an experimental proof that our graziers have nothing to apprehend from it. It does not appear that the price of butcher's meat has ever been sensibly affected by it.

Even the free importation of foreign corn could very little affect the interest of the farmers of Great Britain. Corn is a much more bulky commodity than butcher's meat. A pound of wheat at a penny is as dear as a pound of butcher's meat at fourpence. The small quantity of foreign corn imported even in times of the greatest scarcity may satisfy our farmers that they can have nothing to fear from the freest importation. The average quantity imported, one year with another, amounts only, according to the very well informed author of the tracts upon the corn trade, to twenty-three thousand seven hundred and twenty-eight quarters of all sorts of

grain, and does not exceed the five hundred and seventy-first part of the annual consumption. But as the bounty upon corn occasions a greater exportation in years of plenty, so it must of consequence occasion a greater importation in years of scarcity than in the actual state of tillage would otherwise take place. By means of it the plenty of one year does not compensate the scarcity of another, and as the average quantity exported is necessarily augmented by it, so must likewise, in the actual state of tillage, the average quantity imported. If there were no bounty, as less corn would be exported, so it is probable that, one year with another, less would be imported than at present. The corn merchants, the fetchers and carriers of corn between Great Britain and foreign countries, would have much less employment, and might suffer considerably; but the country gentlemen and farmers could suffer very little. It is in the corn merchants accordingly, rather than in the country gentlemen and farmers, that I have observed the greatest anxiety for the renewal and continuation of the bounty.

Country gentlemen and farmers are, to their great honour, of all people, the least subject to the wretched spirit of monopoly. The undertaker of a great manufactory is sometimes alarmed if another work of the same kind is established within twenty miles of him. The Dutch undertaker of the woollen manufacture at Abbeville stipulated that no work of the same kind should be established within thirty leagues of that city. Farmers and country gentlemen, on the contrary, are generally disposed rather to promote than to obstruct the cultivation and improvement of their neighbours' farms and estates. They have no secrets such as those of the greater part of manufacturers, but are generally rather fond of communicating to their neighbours and of extending as far as possible any new practice which they have found to be advantageous. *Pius Questus*, says old Cato, *stabilissimusque, minimeque invidiosus; minimeque male cogitantes sunt, qui in eo studio occupati sunt.* Country gentlemen and farmers, dispersed in different parts of the country, cannot so easily combine as merchants and manufacturers, who, being collected into towns, and accustomed to that exclusive corporation spirit which prevails in them, naturally endeavour to obtain against all their countrymen the same exclusive privilege which they generally possess against the inhabitants of their respective towns.

They accordingly seem to have been the original inventors of those restraints upon the importation of foreign goods which secure to them the monopoly of the home market. It was probably in imitation of them, and to put themselves upon a level with those who, they found, were disposed to oppress them, that the country gentlemen and farmers of Great Britain so far forgot the generosity which is natural to their station as to demand the exclusive privilege of supplying their countrymen with corn and butcher's meat. They did not perhaps take time to consider how much less their interest could be affected by the freedom of trade than that of the people whose example they followed.

To prohibit by a perpetual law the importation of foreign corn and cattle is in reality to enact that the population and industry of the country shall at no time exceed what the rude produce of its own soil can maintain.

There seem, however, to be two cases in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry.

The first is, when some particular sort of industry is necessary for the defence of the country. The defence of Great Britain, for example, depends very much upon the number of its sailors and shipping. The act of navigation, therefore, very properly endeavours to give the sailors and shipping of Great Britain the monopoly of the trade of their own country, in some cases by absolute prohibitions and in others by heavy burdens upon the shipping of foreign countries. The following are the principal dispositions of this act.

First, all ships, of which the owners and three-fourths of the mariners are not British subjects, are prohibited, upon pain of forfeiting ship and cargo, from trading to the British settlements and plantations, or from being employed in the coasting trade of Great Britain.

Secondly, a great variety of the most bulky articles of importation can be brought into Great Britain only, either in such ships as are above described, or in ships of the country where those goods are purchased, and of which the owners, masters, and three-fourths of the mariners are of that particular country; and when imported even in ships of this latter kind, they are subject to double aliens' duty. If imported in ships of any other country, the penalty is

forfeiture of ship and goods. When this act was made, the Dutch were, what they still are, the great carriers of Europe, and by this regulation they were entirely excluded from being the carriers to Great Britain, or from importing to us the goods of any other European country.

Thirdly, a great variety of the most bulky articles of importation are prohibited from being imported, even in British ships, from any country but that in which they are produced, under pain of forfeiting ship and cargo. This regulation, too, was probably intended against the Dutch. Holland was then, as now, the great emporium for all European goods, and by this regulation British ships were hindered from loading in Holland the goods of any other European country.

Fourthly, salt fish of all kinds, whale-fins, whale-bone, oil, and blubber, not caught by and cured on board British vessels, when imported into Great Britain, are subjected to double aliens' duty. The Dutch, as they are still the principal, were then the only fishers in Europe that attempted to supply foreign nations with fish. By this regulation, a very heavy burden was laid upon their supplying Great Britain.

When the act of navigation was made, though England and Holland were not actually at war, the most violent animosity subsisted between the two nations. It had begun during the government of the Long Parliament, which first framed this act, and it broke out soon after in the Dutch wars during that of the Protector and of Charles the Second. It is not impossible, therefore, that some of the regulations of this famous act may have proceeded from national animosity. They are as wise, however, as if they had all been dictated by the most deliberate wisdom. National animosity at that particular time aimed at the very same object which the most deliberate wisdom would have recommended, the diminution of the naval power of Holland, the only naval power which could endanger the security of England.

The act of navigation is not favourable to foreign commerce, or to the growth of that opulence which can arise from it. The interest of a nation in its commercial relations to foreign nations is, like that of a merchant with regard to the different people with whom he deals, to buy as cheap and to sell as dear as possible. But it will be

most likely to buy cheap, when by the most perfect freedom of trade it encourages all nations to bring to it the goods which it has occasion to purchase; and, for the same reason, it will be most likely to sell dear, when its markets are thus filled with the greatest number of buyers. The act of navigation, it is true, lays no burden upon foreign ships that come to export the produce of British industry. Even the ancient aliens' duty, which used to be paid upon all goods exported as well as imported, has, by several subsequent acts, been taken off from the greater part of the articles of exportation. But if foreigners, either by prohibitions or high duties, are hindered from coming to sell, they cannot always afford to come to buy, because coming without a cargo, they must lose the freight from their own country to Great Britain. By diminishing the number of sellers, therefore, we necessarily diminish that of buyers, and are thus likely not only to buy foreign goods dearer, but to sell our own cheaper, than if there was a more perfect freedom of trade. As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England.

The second case, in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry is, when some tax is imposed at home upon the produce of the latter. In this case, it seems reasonable that an equal tax should be imposed upon the like produce of the former. This would not give the monopoly of the home market to domestic industry, nor turn towards a particular employment a greater share of the stock and labour of the country than what would naturally go to it. It would only hinder any part of what would naturally go to it from being turned away by the tax into a less natural direction, and would leave the competition between foreign and domestic industry, after the tax, as nearly as possible upon the same footing as before it. In Great Britain, when any such tax is laid upon the produce of domestic industry, it is usual at the same time, in order to stop the clamorous complaints of our merchants and manufacturers that they will be undersold at home, to lay a much heavier duty upon the importation of all foreign goods of the same kind.

This second limitation of the freedom of trade according to some people should, upon some occasions, be extended much farther than

to the precise foreign commodities which could come into competition with those which had been taxed at home. When the necessaries of life have been taxed in any country, it becomes proper, they pretend, to tax not only the like necessaries of life imported from other countries, but all sorts of foreign goods which can come into competition with anything that is the produce of domestic industry. Subsistence, they say, becomes necessarily dearer in consequence of such taxes; and the price of labour must always rise with the price of the labourers' subsistence. Every commodity, therefore, which is the produce of domestic industry, though not immediately taxed itself, becomes dearer in consequence of such taxes, because the labour which produces it becomes so. Such taxes, therefore, are really equivalent, they say, to a tax upon every particular commodity produced at home. In order to put domestic upon the same footing with foreign industry, therefore, it becomes necessary, they think, to lay some duty upon every foreign commodity equal to this enhancement of the price of the home commodities with which it can come into competition.

Whether taxes upon the necessaries of life, such as those in Great Britain upon soap, salt, leather, candles, etc., necessarily raise the price of labour, and consequently that of all other commodities, I shall consider hereafter when I come to treat of taxes. Supposing, however, in the meantime, that they have this effect, and they have it undoubtedly, this general enhancement of the price of all commodities, in consequence of that of labour, is a case which differs in the two following respects from that of a particular commodity of which the price was enhanced by a particular tax immediately imposed upon it.

First, it might always be known with great exactness how far the price of such a commodity could be enhanced by such a tax: but how far the general enhancement of the price of labour might affect that of every different commodity about which labour was employed could never be known with any tolerable exactness. It would be impossible, therefore, to proportion with any tolerable exactness the tax upon every foreign to this enhancement of the price of every home commodity.

Secondly, taxes upon the necessaries of life have nearly the same effect upon the circumstances of the people as a poor soil and a bad

climate. Provisions are thereby rendered dearer in the same manner as if it required extraordinary labour and expense to raise them. As in the natural scarcity arising from soil and climate it would be absurd to direct the people in what manner they ought to employ their capitals and industry, so is it likewise in the artificial scarcity arising from such taxes. To be left to accommodate, as well as they could, their industry to their situation, and to find out those employments in which, notwithstanding their unfavourable circumstances, they might have some advantage either in the home or in the foreign market, is what in both cases would evidently be most for their advantage. To lay a new tax upon them, because they are already overburdened with taxes, and because they already pay too dear for the necessaries of life, to make them likewise pay too dear for the greater part of other commodities, is certainly a most absurd way of making amends.

Such taxes, when they have grown up to a certain height, are a curse equal to the barrenness of the earth and the inclemency of the heavens; and yet it is in the richest and most industrious countries that they have been most generally imposed. No other countries could support so great a disorder. As the strongest bodies only can live and enjoy health under an unwholesome regimen, so the nations only that in every sort of industry have the greatest natural and acquired advantages can subsist and prosper under such taxes. Holland is the country in Europe in which they abound most, and which from peculiar circumstances continues to prosper, not by means of them, as has been most absurdly supposed, but in spite of them.

As there are two cases in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestic industry, so there are two others in which it may sometimes be a matter of deliberation; in the one, how far it is proper to continue the free importation of certain foreign goods; and in the other, how far, or in what manner, it may be proper to restore that free importation after it has been for some time interrupted.

The case in which it may sometimes be a matter of deliberation how far it is proper to continue the free importation of certain foreign goods is, when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into

their country. Revenge in this case naturally dictates retaliation, and that we should impose the like duties and prohibitions upon the importation of some or all of their manufactures into ours. Nations, accordingly, seldom fail to retaliate in this manner. The French have been particularly forward to favour their own manufactures by restraining the importation of such foreign goods as could come into competition with them. In this consisted a great part of the policy of Mr. Colbert, who, notwithstanding his great abilities, seems in this case to have been imposed upon by the sophistry of merchants and manufacturers, who are always demanding a monopoly against their countrymen. It is at present the opinion of the most intelligent men in France that his operations of this kind have not been beneficial to his country. That minister, by the tariff of 1667, imposed very high duties upon a great number of foreign manufactures. Upon his refusing to moderate them in favour of the Dutch, they in 1671 prohibited the importation of the wines, brandies, and manufactures of France. The war of 1672 seems to have been in part occasioned by this commercial dispute. The peace of Nimeguen put an end to it in 1678 by moderating some of those duties in favour of the Dutch, who in consequence took off their prohibition. It was about the same time that the French and English began mutually to oppress each other's industry by the like duties and prohibitions, of which the French, however, seem to have set the first example. The spirit of hostility which has subsisted between the two nations ever since has hitherto hindered them from being moderated on either side. In 1697 the English prohibited the importation of bonelace, the manufacture of Flanders. The government of that country, at that time under the dominion of Spain, prohibited in return the importation of English woollens. In 1700, the prohibition of importing bonelace into England was taken off upon condition that the importation of English woollens into Flanders should be put on the same footing as before.

There may be good policy in retaliations of this kind, when there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of goods. To judge whether such retaliations are likely to produce

such an effect does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs. When there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people to do another injury ourselves, not only to those classes, but to almost all the other classes of them. When our neighbours prohibit some manufacture of ours, we generally prohibit, not only the same, for that alone would seldom affect them considerably, but some other manufacture of theirs. This may no doubt give encouragement to some particular class of workmen among ourselves, and by excluding some of their rivals, may enable them to raise their price in the home market. Those workmen, however, who suffered by our neighbours' prohibition will not be benefited by ours. On the contrary, they and almost all the other classes of our citizens will thereby be obliged to pay dearer than before for certain goods. Every such law, therefore, imposes a real tax upon the whole country, not in favour of that particular class of workmen who were injured by our neighbours' prohibition, but of some other class.

The case in which it may sometimes be a matter of deliberation, how far, or in what manner, it is proper to restore the free importation of foreign goods, after it has been for some time interrupted, is, when particular manufactures, by means of high duties or prohibitions upon all foreign goods which can come into competition with them, have been so far extended as to employ a great multitude of hands. Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection. Were those high duties and prohibitions taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home market as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable. It would in all probability, however, be much less than is commonly imagined, for the two following reasons:—

First, all those manufactures, of which any part is commonly exported to other European countries without a bounty, could be very little affected by the freest importation of foreign goods. Such manufactures must be sold as cheap abroad as any other foreign goods of the same quality and kind, and consequently must be sold cheaper at home. They would still, therefore, keep possession of the home market, and though a capricious man of fashion might sometimes prefer foreign wares, merely because they were foreign, to cheaper and better goods of the same kind that were made at home, this folly could, from the nature of things, extend to so few that it could make no sensible impression upon the general employment of the people. But a great part of all the different branches of our woollen manufacture, of our tanned leather, and of our hardware, are annually exported to other European countries without any bounty, and these are the manufactures which employ the greatest number of hands. The silk, perhaps, is the manufacture which would suffer the most by this freedom of trade, and after it the linen, though the latter much less than the former.

Secondly, though a great number of people should, by thus restoring the freedom of trade, be thrown all at once out of their ordinary employment and common method of subsistence, it would by no means follow that they would thereby be deprived either of employment or subsistence. By the reduction of the army and navy at the end of the late war, more than a hundred thousand soldiers and seamen, a number equal to what is employed in the greatest manufactures, were all at once thrown out of their ordinary employment; but, though they no doubt suffered some inconveniency, they were not thereby deprived of all employment and subsistence. The greater part of the seamen, it is probable, gradually betook themselves to the merchant-service as they could find occasion, and in the meantime both they and the soldiers were absorbed in the great mass of the people, and employed in a great variety of occupations. Not only no great convulsion, but no sensible disorder arose from so great a change in the situation of more than a hundred thousand men, all accustomed to the use of arms, and many of them to rapine and plunder. The number of vagrants was scarce anywhere sensibly increased by it, even the wages of labour were not reduced by it in any occupation, so far as I have been able to learn, except in that of

seamen in the merchant service. But if we compare together the habits of a soldier and of any sort of manufacturer, we shall find that those of the latter do not tend so much to disqualify him from being employed in a new trade, as those of the former from being employed in any. The manufacturer has always been accustomed to look for his subsistence from his labour only: the soldier to expect it from his pay. Application and industry have been familiar to the one; idleness and dissipation to the other. But it is surely much easier to change the direction of industry from one sort of labour to another than to turn idleness and dissipation to any. To the greater part of manufactures besides, it has already been observed, there are other collateral manufactures of so similar a nature that a workman can easily transfer his industry from one of them to another. The greater part of such workmen too are occasionally employed in country labour. The stock which employed them in a particular manufacture before will still remain in the country to employ an equal number of people in some other way. The capital of the country remaining the same, the demand for labour will likewise be the same, or very nearly the same, though it may be exerted in different places and for different occupations. Soldiers and seamen, indeed, when discharged from the king's service, are at liberty to exercise any trade, within any town or place of Great Britain or Ireland. Let the same natural liberty of exercising what species of industry they please, be restored to all his Majesty's subjects, in the same manner as to soldiers and seamen; that is, break down the exclusive privileges of corporations, and repeal the statute of apprenticeship, both which are real encroachments upon natural liberty, and add to these the repeal of the law of settlements, so that a poor workman, when thrown out of employment either in one trade or in one place, may seek for it in another trade or in another place without the fear either of a prosecution or of a removal, and neither the public nor the individuals will suffer much more from the occasional disbanding some particular classes of manufacturers than from that of soldiers. Our manufacturers have no doubt great merit with their country, but they cannot have more than those who defend it with their blood, nor deserve to be treated with more delicacy.

To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that

an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. Were the officers of the army to oppose with the same zeal and unanimity any reduction in the numbers of forces with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home market; were the former to animate their soldiers in the same manner as the latter enflame their workmen to attack with violence and outrage the proposers of any such regulation, to attempt to reduce the army would be as dangerous as it has now become to attempt to diminish in any respect the monopoly which our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.

The undertaker of a great manufacture, who, by the home markets being suddenly laid open to the competition of foreigners, should be obliged to abandon his trade, would no doubt suffer very considerably. That part of his capital which had usually been employed in purchasing materials and in paying his workmen might, without much difficulty, perhaps, find another employment. But that part of it which was fixed in workhouses, and in the instruments of trade, could scarce be disposed of without considerable loss. The equitable regard, therefore, to his interest requires that changes of this kind should never be introduced suddenly, but slowly, gradually, and after a very long warning.

The legislature, were it possible that its deliberations could be always directed, not by the clamorous importunity of partial interests, but by an extensive view of the general good, ought upon this very account, perhaps, to be particularly careful neither to establish any new monopolies of this kind, nor to extend further those which are already established. Every such regulation introduces some degree of real disorder into the constitution of the state, which it will be difficult afterwards to cure without occasioning another disorder.

How far it may be proper to impose taxes upon the importation of foreign goods, in order not to prevent their importation but to raise a revenue for government, I shall consider hereafter when I come to treat of taxes. Taxes imposed with a view to prevent, or even to diminish importation, are evidently as destructive of the revenue of the customs as of the freedom of trade.

# IX

## MILL: OF TAXES ON COMMODITIES[1]

A TAX on any one commodity, whether laid on its production, its importation, its carriage from place to place, or its sale, and whether the tax be a fixed sum of money for a given quantity of the commodity, or an *ad valorem* duty, will, as a general rule, raise the value and price of the commodity by at least the amount of the tax. There are few cases in which it does not raise them by more than that amount. In the first place, there are few taxes on production on account of which it is not found or deemed necessary to impose restrictive regulations on the manufacturers or dealers, in order to check evasions of the tax. These regulations are always sources of trouble and annoyance, and generally of expense, for all of which, being peculiar disadvantages, the producers or dealers must have compensation in the price of their commodity. These restrictions also frequently interfere with the processes of manufacture, requiring the producer to carry on his operations in the way most convenient to the revenue, though not the cheapest or most efficient for purposes of production. Any regulations whatever, enforced by law, make it difficult for the producer to adopt new and improved processes. Further, the necessity of advancing the tax obliges producers and dealers to carry on their business with larger capitals than would otherwise be necessary, on the whole of which they must receive the ordinary rate of profit, though a part only is employed in defraying the real expenses of production or importation. The price of the article must be such as to afford a profit on more than its natural value, instead of a profit on only its natural value. A part of the capital of the country, in short, is not employed in production,

[1] John Stuart Mill (1806–1873), Principles of Political Economy (1848), Bk. V, chap. iv.

but in advances to the state, repaid in the price of goods; and the consumers must give an indemnity to the sellers, equal to the profit which they could have made on the same capital if really employed in production. Neither ought it to be forgotten, that whatever renders a larger capital necessary in any trade or business, limits the competition in that business; and by giving something like a monopoly to a few dealers, may enable them either to keep up the price beyond what would afford the ordinary rate of profit, or to obtain the ordinary rate of profit with a less degree of exertion for improving and cheapening their commodity. In these several modes, taxes on commodities often cost to the consumer, through the increased price of the article, much more than they bring into the treasury of the state. There is still another consideration. The higher price necessitated by the tax, almost always checks the demand for the commodity; and since there are many improvements in production which, to make them practicable, require a certain extent of demand, such improvements are obstructed, and many of them prevented altogether. It is a well-known fact, that the branches of production in which fewest improvements are made, are those with which the revenue officer interferes; and that nothing, in general, gives a greater impulse to improvements in the production of a commodity, than taking off a tax which narrowed the market for it.

* * * * * * * * * * *

§ 5. We have hitherto inquired into the effects of taxes on commodities, on the assumption that they are levied impartially on every mode in which the commodity can be produced or brought to market. Another class of considerations is opened, if we suppose that this impartiality is not maintained, and that the tax is imposed, not on the commodity, but on some particular mode of obtaining it.

Suppose that a commodity is capable of being made by two different processes; as a manufactured commodity may be produced either by hand or by steam-power; sugar may be made either from the sugar-cane or from beet-root, cattle fattened either on hay and green crops, or on oil-cake and the refuse of breweries. It is the interest of the community, that of the two methods, producers should adopt that which produces the best article at

the lowest price. This being also the interest of the producers, unless protected against competition, and shielded from the penalties of indolence; the process most advantageous to the community is that which, if not interfered with by government, they ultimately find it to their advantage to adopt. Suppose however that a tax is laid on one of the processes, and no tax at all, or one of smaller amount, on the other. If the taxed process is the one which the producers would not have adopted, the measure is simply nugatory. But if the tax falls, as it is of course intended to do, upon the one which they would have adopted, it creates an artificial motive for preferring the untaxed process, though the inferior of the two. If, therefore, it has any effect at all, it causes the commodity to be produced of worse quality, or at a greater expense of labour; it causes so much of the labour of the community to be wasted, and the capital employed in supporting and remunerating that labour to be expended as uselessly, as if it were spent in hiring men to dig holes and fill them up again. This waste of labour and capital constitutes an addition to the cost of production of the commodity, which raises its value and price in a corresponding ratio, and thus the owners of the capital are indemnified. The loss falls on the consumers; though the capital of the country is also eventually diminished, by the diminution of their means of saving, and in some degree, of their inducements to save.

The kind of tax, therefore, which comes under the general denomination of a discriminating duty, transgresses the rule that taxes should take as little as possible from the tax-payer beyond what they bring into the treasury of the state. A discriminating duty makes the consumer pay two distinct taxes, only one of which is paid to the government, and that frequently the less onerous of the two. If a tax were laid on sugar produced from the cane, leaving the sugar from beet-root untaxed, then in so far as cane sugar continued to be used, the tax on it would be paid to the treasury, and might be as unobjectionable as most other taxes; but if cane sugar, having previously been cheaper than beet-root sugar, was now dearer, and beet-root sugar was to any considerable amount substituted for it, and fields laid out and manufactories established in consequence, the government would gain no revenue from the beet-root sugar, while the consumers of it would pay a real tax. They

would pay for beet-root sugar more than they had previously paid for cane sugar, and the difference would go to indemnify producers for a portion of the labour of the country actually thrown away, in producing by the labour of (say) three hundred men, what could be obtained by the other process with the labour of two hundred.

One of the commonest cases of discriminating duties, is that of a tax on the importation of a commodity capable of being produced at home, unaccompanied by an equivalent tax on the home production. A commodity is never permanently imported, unless it can be obtained from abroad at a smaller cost of labour and capital on the whole, than is necessary for producing it. If, therefore, by a duty on the importation, it is rendered cheaper to produce the article than to import it, an extra quantity of labour and capital is expended, without any extra result. The labour is useless, and the capital is spent in paying people for laboriously doing nothing. All custom duties which operate as an encouragement to the home production of the taxed article, are thus an eminently wasteful mode of raising a revenue.

This character belongs in a peculiar degree to custom duties on the produce of land, unless countervailed by excise duties on the home production. Such taxes bring less into the public treasury, compared with what they take from the consumers, than any other imposts to which civilized nations are usually subject. If the wheat produced in a country is twenty millions of quarters, and the consumption twenty-one millions, a million being annually imported, and if on this million a duty is laid which raises the price ten shillings per quarter, the price which is raised is not that of the million only, but of the whole twenty-one millions. Taking the most favourable, but extremely improbable supposition, that the importation is not at all checked, nor the home production enlarged, the state gains a revenue of only half a million, while the consumers are taxed ten millions and a half: the ten millions being a contribution to the home growers, who are forced by competition to resign it all to the landlords. The consumer thus pays to the owners of land an additional tax, equal to twenty times that which he pays to the state. Let us now suppose that the tax really checks importation. Suppose importation stopped altogether in ordinary years; it being found that the million of quarters can be obtained, by a more

elaborate cultivation, or by breaking up inferior land, at a less advance than ten shillings upon the previous price—say, for instance, five shillings a quarter. The revenue now obtains nothing, except from the extraordinary imports which may happen to take place in a season of scarcity. But the consumers pay every year a tax of five shillings on the whole twenty-one millions of quarters, amounting to $5\frac{1}{4}$ millions sterling. Of this the odd 250,000*l.* goes to compensate the growers of the last million of quarters for the labour and capital wasted under the compulsion of the law. The remaining five millions go to enrich the landlords as before.

Such is the operation of what are technically termed Corn Laws, when first laid on; and such continues to be their operation, so long as they have any effect at all in raising the price of corn. But I am by no means of opinion that in the long run they keep up either prices or rents in the degree which these considerations might lead us to suppose. What we have said respecting the effect of tithes and other taxes on agricultural produce, applies in a great degree to corn laws: they anticipate artificially a rise of price and of rent, which would at all events have taken place through the increase of population and of production. The difference between a country without corn laws, and a country which has long had corn laws, is not so much that the last has a higher price or a larger rental, but that it has the same price and the same rental with a smaller aggregate capital and a smaller population. The imposition of corn laws raises rents, but retards that progress of accumulation which would in no long period have raised them fully as much. The repeal of corn laws tends to lower rents, but it unchains a force which, in a progressive state of capital and population, restores and even increases the former amount. There is every reason to expect that under the virtually free importation of agricultural produce, at last extorted from the ruling powers of this country, the price of food, if population goes on increasing, will gradually but steadily rise; though this effect may for a time be postponed by the strong current which in this country has set in (and the impulse is extending itself to other countries) towards the improvement of agricultural science, and its increased application to practice.

What we have said of duties on importation generally, is equally applicable to discriminating duties which favour importation from

one place or in one particular manner, in contradistinction to others; such as the preference given to the produce of a colony, or of a country with which there is a commercial treaty; or the higher duties formerly imposed by our navigation laws on goods imported in other than British shipping. Whatever else may be alleged in favour of such distinctions, whenever they are not nugatory, they are economically wasteful. They induce a resort to a more costly mode of obtaining a commodity, in lieu of one less costly, and thus cause a portion of the labour which the country employs in providing itself with foreign commodities, to be sacrificed without return.

## MILL: OF INTERFERENCES OF GOVERNMENT GROUNDED ON ERRONEOUS THEORIES[1]

* * * * * * * * * * *

Of these false theories, the most notable is the doctrine of Protection to Native Industry; a phrase meaning the prohibition, or the discouragement by heavy duties, of such foreign commodities as are capable of being produced at home. If the theory involved in this system had been correct, the practical conclusions grounded on it would not have been unreasonable. The theory was, that to buy things produced at home was a national benefit, and the introduction of foreign commodities, generally a national loss. It being at the same time evident that the interest of the consumer is to buy foreign commodities in preference to domestic whenever they are either cheaper or better, the interest of the consumer appeared in this respect to be contrary to the public interest; he was certain, if left to his own inclinations, to do what according to the theory was injurious to the public.

It was shown, however, in our analysis of the effects of international trade, as it had been often shown by former writers, that the importation of foreign commodities, in the common course of traffic, never takes place, except when it is, economically speaking, a national good, by causing the same amount of commodities to be obtained at a smaller cost of labour and capital to the country. To prohibit, therefore, this importation, or impose duties which prevent

[1] Mill, Principles, Bk. V, chap. x, § 1.

it, is to render the labour and capital of the country less efficient in production than they would otherwise be; and compel a waste, of the difference between the labour and capital necessary for the home production of the commodity, and that which is required for producing the things with which it can be purchased from abroad. The amount of national loss thus occasioned is measured by the excess of the price at which the commodity is produced, over that at which it could be imported. In the case of manufactured goods the whole difference between the two prices is absorbed in indemnifying the producers for waste of labour, or of the capital which supports that labour. Those who are supposed to be benefited, namely the makers of the protected articles, (unless they form an exclusive company, and have a monopoly against their own countrymen as well as against foreigners,) do not obtain higher profits than other people. All is sheer loss, to the country as well as to the consumer. When the protected article is a product of agriculture—the waste of labour not being incurred on the whole produce, but only on what may be called the last instalment of it—the extra price is only in part an indemnity for waste, the remainder being a tax paid to the landlords.

The restrictive and prohibitory policy was originally grounded on what is called the Mercantile System, which, representing the advantage of foreign trade to consist solely in bringing money into the country, gave artificial encouragement to exportation of goods, and discountenanced their importation. The only exceptions to the system were those required by the system itself. The materials and instruments of production were the subject of a contrary policy, directed, however, to the same end; they were freely imported, and not permitted to be exported, in order that manufacturers, being more cheaply supplied with the requisites of manufacture, might be able to sell cheaper, and therefore to export more largely. For a similar reason, importation was allowed and even favoured, when confined to the productions of countries which were supposed to take from the country still more than it took from them, thus enriching it by a favourable balance of trade. As part of the same system, colonies were founded, for the supposed advantage of compelling them to buy our commodities, or at all events not to buy those of any other country: in return for which restriction, we were generally willing to come under an equivalent obligation with respect

to the staple productions of the colonists. The consequences of the theory were pushed so far, that it was not unusual even to give bounties on exportation, and induce foreigners to buy from us rather than from other countries, by a cheapness which we artificially produced, by paying part of the price for them, out of our own taxes. This is a stretch beyond the point yet reached by any private tradesman in his competition for business. No shopkeeper, I should think, ever made a practice of bribing customers by selling goods to them at a permanent loss, making it up to himself from other funds in his possession.

The principle of the Mercantile Theory is now given up even by writers and governments who still cling to the restrictive system. Whatever hold that system has over men's minds, independently of the private interests exposed to real or apprehended loss by its abandonment, is derived from fallacies other than the old notion of the benefits of heaping up money in the country. The most effective of these is the specious plea of employing our own countrymen and our national industry, instead of feeding and supporting the industry of foreigners. The answer to this, from the principles laid down in former chapters, is evident. Without reverting to the fundamental theorem discussed in an early part of the present treatise, respecting the nature and sources of employment for labour, it is sufficient to say, what has usually been said by the advocates of free trade, that the alternative is not between employing our own people and foreigners, but between employing one class and another of our own people. The imported commodity is always paid for, directly or indirectly, with the produce of our own industry: that industry being, at the same time, rendered more productive, since, with the same labour and outlay, we are enabled to possess ourselves of a greater quantity of the article. Those who have not well considered the subject are apt to suppose that our exporting an equivalent in our own produce, for the foreign articles we consume, depends on contingencies—on the consent of foreign countries to make some corresponding relaxation of their own restrictions, or on the question whether those from whom we buy are induced by that circumstance to buy more from us; and that, if these things, or things equivalent to them, do not happen, the payment must be made in money. Now, in the first place, there is nothing more objectionable in a money

payment than in payment by any other medium, if the state of the market makes it the most advantageous remittance; and the money itself was first acquired, and would again be replenished, by the export of an equivalent value of our own products. But, in the next place, a very short interval of paying in money would so lower prices as either to stop a part of the importation, or raise up a foreign demand for our produce, sufficient to pay for the imports. I grant that this disturbance of the equation of international demand would be in some degree to our disadvantage, in the purchase of other imported articles; and that a country which prohibits some foreign commodities, does, *cæteris paribus*, obtain those which it does not prohibit, at a less price than it would otherwise have to pay. To express the same thing in other words; a country which destroys or prevents altogether certain branches of foreign trade, thereby annihilating a general gain to the world, which would be shared in some proportion between itself and other countries—does, in some circumstances, draw to itself, at the expense of foreigners, a larger share than would else belong to it of the gain arising from that portion of its foreign trade which it suffers to subsist. But even this it can only be enabled to do, if foreigners do not maintain equivalent prohibitions or restrictions against its commodities. In any case, the justice or expediency of destroying one of two gains, in order to engross a rather larger share of the other, does not require much discussion; the gain, too, which is destroyed, being, in proportion to the magnitude of the transactions, the larger of the two, since it is the one which capital, left to itself, is supposed to seek by preference.

Defeated as a general theory, the Protectionist doctrine finds support in some particular cases, from considerations which, when really in point, involve greater interests than mere saving of labour; the interests of national subsistence and of national defence. The discussions on the Corn Laws have familiarized everybody with the plea, that we ought to be independent of foreigners for the food of the people; and the Navigation Laws were grounded, in theory and profession, on the necessity of keeping up a "nursery of seamen" for the navy. On this last subject I at once admit, that the object is worth the sacrifice; and that a country exposed to invasion by sea, if it cannot otherwise have sufficient ships and sailors of its

own to secure the means of manning on an emergency an adequate fleet, is quite right in obtaining those means, even at an economical sacrifice in point of cheapness of transport. When the English navigation laws were enacted, the Dutch, from their maritime skill and their low rate of profit at home, were able to carry for other nations, England included, at cheaper rates than those nations could carry for themselves: which placed all other countries at a great comparative disadvantage in obtaining experienced seamen for their ships of war. The Navigation Laws, by which this deficiency was remedied, and at the same time a blow struck against the maritime power of a nation with which England was then frequently engaged in hostilities, were probably, though economically disadvantageous, politically expedient. . . .

With regard to subsistence, the plea of the Protectionists has been so often and so triumphantly met, that it requires little notice here. That country is the most steadily as well as the most abundantly supplied with food, which draws its supplies from the largest surface. It is ridiculous to found a general system of policy on so improbable a danger as that of being at war with all the nations of the world at once; or to suppose that, even if inferior at sea, a whole country could be blockaded like a town, or that the growers of food in other countries would not be as anxious not to lose an advantageous market, as we should be not to be deprived of their corn. On the subject, however, of subsistence, there is one point which deserves more especial consideration. In cases of actual or apprehended scarcity, many countries of Europe are accustomed to stop the exportation of food. Is this, or not, sound policy? There can be no doubt that in the present state of international morality, a people cannot, any more than an individual, be blamed for not starving itself to feed others. But if the greatest amount of good to mankind on the whole, were the end aimed at in the maxims of international conduct, such collective churlishness would certainly be condemned by them. Suppose that in ordinary circumstances the trade in food were perfectly free, so that the price in one country could not habitually exceed that in any other by more than the cost of carriage, together with a moderate profit to the importer. A general scarcity ensues, affecting all countries, but in unequal degrees. If the price rose in one country more than in others, it would be a proof that

in that country the scarcity was severest, and that by permitting food to go freely thither from any other country, it would be spared from a less urgent necessity to relieve a greater. When the interests, therefore, of all countries are considered, free exportation is desirable. To the exporting country considered separately, it may, at least on the particular occasion, be an inconvenience: but taking into account that the country which is now the giver, will in some future season be the receiver, and the one that is benefited by the freedom, I cannot but think that even to the apprehension of food-rioters it might be made apparent, that in such cases they should do to others what they would wish done to themselves.

In countries in which the system of Protection is declining, but not yet wholly given up, such as the United States,[1] a doctrine has come into notice which is a sort of compromise between free trade and restriction, namely, that protection for protection's sake is improper, but that there is nothing objectionable in having as much protection as may incidentally result from a tariff framed solely for revenue. Even in England, regret is sometimes expressed that a "moderate fixed duty" was not preserved on corn, on account of the revenue it would yield. Independently, however, of the general impolicy of taxes on the necessaries of life, this doctrine overlooks the fact, that revenue is received only on the quantity imported, but that the tax is paid on the entire quantity consumed. To make the public pay much that the treasury may receive a little, is no eligible mode of obtaining a revenue. In the case of manufactured articles the doctrine involves a palpable inconsistency. The object of the duty as a means of revenue, is inconsistent with its affording, even incidentally, any protection. It can only operate as protection in so far as it prevents importation; and to whatever degree it prevents importation, it affords no revenue.

The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production, often arises only from having begun it sooner. There may be no inherent advantage on one part, or

[1] Written in 1848. (Ed.)

disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire, may in other respects be better adapted to the production than those which were earlier in the field; and besides, it is a just remark of Mr. Rae, that nothing has a greater tendency to promote improvements in any branch of production, than its trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burden of carrying it on, until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing.

There is only one part of the Protectionist scheme which requires any further notice: its policy towards colonies, and foreign dependencies; that of compelling them to trade exclusively with the dominant country. A country which thus secures to itself an extra foreign demand for its commodities, undoubtedly gives itself some advantage in the distribution of the general gains of the commercial world. Since, however, it causes the industry and capital of the colony to be diverted from channels, which are proved to be the most productive, inasmuch as they are those into which industry and capital spontaneously tend to flow: there is a loss, on the whole, to the productive powers of the world, and the mother country does not gain so much as she makes the colony lose. If, therefore, the mother country refuses to acknowledge any reciprocity of obligations, she imposes a tribute on the colony in an indirect mode, greatly more oppressive and injurious than the direct. But if, with a more equitable spirit, she submits herself to corresponding restrictions for the benefit of the colony, the result of the whole transaction is the ridiculous one, that each party loses much, in order that the other may gain a little.

# X

# LIST: INTRODUCTION TO THE NATIONAL SYSTEM OF POLITICAL ECONOMY[1]

* * * * * * * * * * *

IN CONSIDERING the economic development of the various nations, we may take for granted the following main evolutionary stages: barbarism, pastoral state, agricultural stage, period of agriculture and manufacturing, and period of agriculture, manufacturing, and commerce.

Obviously, a nation which presents a large population, occupying an extensive territory provided with diversified natural resources, and combining agriculture, manufactures, and navigation with domestic and foreign trade, is far more highly civilized, more highly developed politically, and more powerful than a nation which is purely agricultural. Manufactures are the basis of domestic and foreign trade, of navigation, and of improved agriculture—and hence of civilization and political power; and a nation which should succeed in monopolizing the entire manufacturing of the globe and in inhibiting the economic development of other nations to such an extent that they could produce only agricultural commodities and raw materials and carry on only the most indispensable local industries, would necessarily achieve universal dominion.

Every nation which values independence and continued existence must, accordingly, strive to attain as soon as possible a higher state of civilization—to combine as soon as possible, within the limits of its own territory, agriculture, manufactures, navigation, and trade.

The transitions of a people from a state of barbarism to a pastoral life, and from the pastoral stage to that of agriculture, and the first stages of agricultural progress, are best effected through free trade with civilized peoples; that is, with nations devoted to manufacture and trade.

[1] Friedrich List (1789–1846), National System of Political Economy (1841), Introduction (Vol. I, pp. 63–76, of Jena edition, 1910).

The transition of agricultural peoples to the status of nations engaged in agriculture, manufacturing, and trade could occur spontaneously, under a system of free intercommunication, only in case the nations challenged to develop their power in the field of manufactures had all undergone, simultaneously, the same process of development, had not sought to hamper each other in their economic expansion, and did not hinder the progress of one another by means of war and customs-systems.

But as individual nations, favored by special conditions, secured an advantage over other nations in manufacturing, trade, and navigation, as they perceived at an early stage, in connection with these achievements, the most effective means of securing and maintaining political ascendancy over other peoples, they took steps calculated, then as now, to secure a monopoly of manufacturing and trade and to hamper the progress of nations less advanced. The network of these arrangements (prohibition of imports, import duties, restrictions upon navigation, export subsidies) is called the tariff system.

In consequence of priority of development on the part of other nations, foreign customs-systems, and war, peoples less highly developed are compelled to seek within themselves the means of effecting the transition from the agricultural to the manufacturing stage and to restrict trade with more advanced nations which are striving to achieve a monopoly of manufactures—in so far as this trade is disadvantageous to them—by establishing a customs-system of their own.

The customs-system, accordingly, is not, as has been asserted, an invention of speculative thinkers; it is a natural consequence of the striving of nations for guaranties of continued existence and prosperity or for preponderance of power.

But this endeavor is legitimate and rational only in so far as it furthers the economic development of the nation in question and does not militate against the realization of the higher purpose of mankind,—the world-federation of the future.

Just as human society may be viewed from two different standpoints,—the cosmopolitan, which regards humanity as a whole, and the political, which stresses special national interests and conditions,—so all economics, that of private individuals as well as that of society, may be regarded from two fundamental points of view:

namely, with reference to the personal, social, and material forces whereby wealth is produced, or from the standpoint of the exchange-value of material commodities.

We have to deal, accordingly, with a cosmopolitan and a political economy, a theory of exchange-values and a theory of productive forces,—doctrines which are essentially dissimilar and which must be developed independently.

The productive forces of nations are not determined alone by the industry, thrift, morality, and intelligence of individuals, or by the possession of natural resources, but also by social, political, and civic institutions and laws,—above all, by the guaranties of national perpetuity, independence, and power. However diligent, thrifty, ingenious, enterprising, moral, and intelligent may be the *individuals* in question, the *nation* will never be able, without national unity, division of labor, and coöperation in the organization of productive forces, to achieve a high degree of prosperity and power or to guarantee the continued possession of its spiritual, social, and material assets.

The principle of division of labor has hitherto been imperfectly understood. Its productivity does not lie merely in the distribution of different business operations among several individuals, but to a still greater extent in the mental and physical union of these individuals for the attainment of a common purpose.

This principle is, accordingly, applicable not merely to the individual factory or farm but also to the entire agricultural, manufacturing, and commercial resources of a nation.

Division of labor and union of the productive forces on a national scale exist when the intellectual and material aspects of a nation's productivity stand in proper relation to each other, and agriculture, industry, and trade are uniformly and harmoniously developed.

In the case of a purely agricultural people—even one which maintains free intercourse with manufacturing and trading nations—a large portion of the productive forces and natural resources remains undeveloped. Its intellectual and political expansion and its means of self-defense are restricted. Extensive shipping and trade are out of the question. Its prosperity, in so far as this depends on intercommunication with other nations, is subject to interruption and disturbance and may even be destroyed in consequence of the measures adopted by foreign countries and of war.

Manufacturing strength, on the other hand, promotes science, art, and political progress; increases the population and heightens national well-being; augments the resources of the state and the national strength; enables it to multiply its trade-connections in all parts of the earth and to establish colonies; promotes its fisheries and shipping; and supports its navy. It is only by this means that domestic agriculture is raised to a high plane of development.

The forces represented by agriculture and manufactures as pursued by one and the same nation, under the same political jurisdiction, stand in a relation of perpetual harmony, their interaction not being subject to disturbance in consequence of war or foreign trade-measures; and they thus guarantee to the nation increasing prosperity and constant progress in the direction of higher civilization and greater power.

While the forces represented by manufactures and agriculture are determined by nature, the conditions are dissimilar.

The countries best suited, with reference to natural resources, to the development of manufactures are those of the temperate zone, as the climate of this region is adapted to mental and physical exertion.

While the countries of the torrid zone are unfavorably situated with respect to manufactures, they possess, on the other hand, a natural monopoly in valuable agricultural products such as appeal to the countries of the temperate zone. The exchange of products manufactured in the temperate zone in return for the agricultural products of the torrid zone (colonial products) gives rise chiefly to cosmopolitan division of labor and union of productive forces—to the imposing proportions of international trade.

It would be decidedly to the disadvantage of a country situated in the torrid zone to attempt to develop independent manufacturing resources. Not fitted by nature for such a task, an increase in material wealth and an advance in civilization are far more readily achieved through the exchange of its agricultural products for the manufactured articles of the temperate zone.

The result, of course, is that the countries of the torrid zone become dependent upon those of the temperate zone. But this dependence does not prove a disadvantage, and is in fact neutralized, in case a number of nations arise in the temperate zone, whose relations serve to create a balance of power in the field of manufactures, trade,

shipping, and political influence, and which not only find it to their interest but also within their power to prevent any one of the group from taking undue advantage of its superiority with reference to the weaker nations of the torrid zone. This preponderance of power would be a source of danger and a detriment only in case manufacturing resources, trade and navigation on a large scale, and sea-power were to be monopolized by a single nation.

Nations, on the other hand, which occupy an extensive territory in the temperate zone, provided with diversified natural resources, would be neglecting one of the richest sources of prosperity, civilization, and power in case they did not strive to effect on a national scale division of labor and a union of productive forces, as soon as they secured the requisite economic, intellectual, and social resources.

Among economic resources we include a fairly advanced stage of agriculture, such as can no longer be promoted to any considerable extent through the exportation of its products. By intellectual resources is meant a high degree of cultivation on the part of individuals. By social resources are meant institutions and laws which guarantee to the citizen security of person and property and the free exercise of his intellectual and physical powers—institutions which regulate and facilitate intercommunication, and the absence of those which exercise a disturbing effect upon industry, freedom, intelligence, and morality, as in the case of the feudal system.

It is to the advantage of such a nation to strive first of all to supply its own market with its own manufactured products, and then to establish ever closer connections with the countries of the torrid zone, exporting to them in its own ships articles of manufacture and receiving in return the products of the warmer zone.

In comparison with this trade between the manufacturing countries of the temperate and the agricultural countries of the torrid zone, all international trade, with the exception of a few articles such as wine, is of minor importance.

The production of raw materials and foodstuffs on the part of large nations in the temperate zone is of no great consequence except for purposes of domestic trade. The agriculture of a nation with scanty resources or on a low plane of civilization may be considerably promoted, in the earliest stages of the nation's development, through the exportation of grain, wine, flax, hemp, wool, etc.;

but this process has never served as yet to guarantee to a great nation wealth, civilization, and power.

It may be stated as a general rule that the wealth and power of a nation are proportional to the quantity of manufactured products exported and of raw materials imported by that nation, and to the volume of products of the torrid zone which it consumes.

The products of the torrid zone serve the manufacturing countries of the temperate zone not merely as productive materials or food-stuffs but chiefly as a means of stimulating production in the fields of agriculture and manufacturing. It is always found, accordingly, that that nation which consumes the greatest quantities of products from the torrid zone likewise produces and consumes, proportionately, the largest volume of domestic manufactured and agricultural commodities.

In the economic development of nations through international trade, we find accordingly four distinct periods: in the first, domestic agriculture is fostered by means of the importation of foreign manufactures and the exportation of domestic agricultural produce and raw materials; in the second, domestic manufactures are developed side by side with the importation of commodities of foreign manufacture; in the third, the domestic market is supplied for the most part with domestic products; and in the fourth, there is an extensive exportation of commodities of domestic manufacture, coupled with the importation of foreign raw materials and agricultural products.

The tariff system, as a means of promoting the economic development of the nation through the regulation of foreign trade, must be guided constantly by the principle of the industrial training of the nation.

It is vain to endeavor to promote domestic agriculture by means of protective tariffs, as its progress is dependent upon domestic manufactures, and as the development of these manufactures is hampered by the exclusion of foreign raw materials and agricultural products.

The economic development of nations which occupy a low plane of intelligence and civilization, or which, in proportion to the extent and productivity of their territory, still present a scanty population, is best achieved through free trade with highly civilized nations characterized by wealth and industry. Any limitation of trade on the part of such a nation, prescribed with a view to create its own

manufacturing resources, is premature, operating to the disadvantage not only of mankind as a whole but also of its own efforts to progress. Only when the intellectual, political, and economic development of the nation, due to free trade, has reached a point where the importation of foreign manufactures and the lack of an adequate market for its own products result in checking further progress, is it justified in resorting to protective measures.

A nation whose territory is of limited extent, lacking diversified natural resources, and not properly rounded out (in consequence, for example, of the fact that the mouths of its streams lie in foreign countries) is not in a position to apply with full success—if at all—the principle of protection. A nation so situated must seek first of all to remedy such defects, either through conquest or through treaty arrangements.

Manufacturing ability embraces so many different branches of knowledge and endeavor, and presupposes so much experience and practice, that the industrial training of a nation necessarily presents a very gradual process. Hasty and overzealous application of the principle of protection avenges itself through the diminution of the well-being of the nation in question.

Most objectionable and injurious of all is the sudden and complete isolation of the nation through prohibitory duties. But even such measures are justifiable in case the nation, in the course of a protracted war, has been cut off from communication with other countries, and, in the face of an involuntary prohibition upon the manufactured products of foreign nations, has been absolutely compelled to satisfy its own needs.

In such a case a gradual transition should be effected from the system of embargoes to that of protection, by means of gradually diminishing tariff rates, determined considerably in advance of the date on which they shall become effective. On the other hand, a nation intent on abandoning free trade in favor of a protective system should start with a low tariff schedule, gradually supplanted, in accordance with a predetermined scale, by higher rates.

The tariff rates thus predetermined should be scrupulously enforced by executive authority. While the government is not authorized to reduce these rates before the appointed time, it may increase them, in case they do not appear adequate.

An excessively high scale of import duties, such as serve to exclude foreign competition altogether, is a detriment to the nation itself which has established this scale, as the cessation of competition with foreign manufacturers tends to create a state of lethargy on the part of the home-manufacturers.

In case, under the influence of fairly high and gradually increasing tariff rates, domestic manufactures fail to thrive, it is evident that the nation has not yet acquired the necessary resources for establishing itself in a dominant position in the field of manufactures.

The tariff whereby an industry has once been protected should never be reduced to a point at which the existence of this industry is endangered by foreign competition. The preservation of what has been achieved, the protection, in all its essentials, of the national industry, must constitute an inviolable principle.

Foreign competition may accordingly be admitted to only a share of the increase in annual consumption. The tariff rates must be increased as soon as foreign competition has appropriated the whole or the greater part of the annual increase.

A nation such as England, which has gained a great advantage over all the other nations in the field of manufactures, best maintains and extends its supremacy as a manufacturing and trading power by means of the largest possible measure of free trade. In its case the cosmopolitan and the political principle represent one and the same thing.

This explains the preference of enlightened English political economists for absolute freedom of trade, as well as the disinclination of prudent economists of other countries to apply this principle in the face of existing world-conditions.

For a quarter of a century the English system of embargoes and protection has operated to her own disadvantage and to the advantage of the other nations striving to gain the ascendancy.

Most serious of all, in its effect upon England, is her own prohibition upon the importation of foreign raw materials and foodstuffs.

Commercial associations and trade agreements are the most effective means of facilitating intercourse between different nations.

Commercial treaties, however, are legitimate and enduring only when the advantages which they represent are reciprocal. Injurious and unwarrantable are such trade agreements as those which,

owing to the desire of a nation to secure concessions for the exportation of agricultural products, sacrifice in the interest of another nation manufacturing resources which are already in course of development; namely, Methuen compacts and those whereby one party secures the lion's share of the benefits conferred.

An illustration of such one-sided trade agreements is to be found in the treaty negotiated between England and France in 1786. All the proposals which England has subsequently made to France and other countries are of the same character.

While protective tariffs may temporarily increase the price of domestic manufactures, they subsequently lower prices, owing to the operation of domestic competition; for a fully developed industry is able to reduce the price of its products by an amount equal to the costs and profits involved in the exportation of raw materials and foodstuffs and the importation of manufactured articles.

The loss which a nation undergoes in consequence of protective tariffs consists in any case only in *values*; whereas, on the other hand, it gains *powers* whereby it is enabled permanently to produce values which are incalculable in their amount. This expenditure of values is, accordingly, to be regarded simply as the price of the industrial development of the nation.

The protective tariff on manufactures does not have to be borne by the agriculturists of the nation in question. The development of domestic manufactures serves enormously to increase wealth and population and, consequently, the demand for agricultural products, thus, augmenting the exchange-value of landed property and the income derived therefrom; and in course of time, moreover, the demands of the agricultural population for manufactured commodities are supplied more cheaply. The profits thus obtained exceed tenfold the losses incurred by agriculturists in consequence of the temporary increase in the price of manufactures.

In like manner does the protective system conduce to the advantage of foreign and domestic trade; for it is only in the case of nations which themselves supply the need of the domestic market for manufactured products, consuming their own agricultural products, and exchanging their own surplus manufactures for foreign raw materials and foodstuffs, that domestic and foreign trade constitute a factor of importance. Among purely agricultural nations in the

temperate zone these two activities are of little consequence, the foreign trade of such nations being monopolized, as a rule, by the manufacturing and trading nations with which they have established relations.

An adequate protective system does not grant a monopoly to domestic manufacturers, serving merely to guarantee against loss those individuals who are devoting their capital, ability, and energy to the development of new and unfamiliar industries.

It grants no monopoly because foreign competition gives place merely to domestic competition, and because every citizen has the privilege of availing himself of the prizes offered by the nation to its individuals.

It yields a monopoly merely to the citizens of the nation in question, in contradistinction to those of other nations, who possess a like monopoly in their own respective countries.

This monopoly is of advantage, as it not only serves to stimulate the application of productive forces hitherto merely latent and potential, but also attracts foreign productive forces (capital both material and intellectual, entrepreneurs, technicians, and operatives).

On the other hand, lack of development of its own manufacturing resources on the part of any nation possessing a civilization of long standing, and whose productive powers can no longer be increased to any great extent by means of the exportation of raw materials and agricultural products and by the importation of commodities of foreign manufacture, exposes this nation to numerous and serious disadvantages.

The agriculture of such a land must necessarily deteriorate; for the increased population which, in connection with the development of domestic manufactures on a large scale, would be absorbed by the various industries, creating a large demand for agricultural products, and thus rendering profitable the pursuit of agriculture on a large scale, must now devote itself exclusively to this pursuit, thus necessitating the parceling out of land and the conduct of agriculture on a small scale, and seriously impairing the wealth, power, and civilization of the nation in question.

An agricultural people consisting for the most part of petty peasants is able neither to supply large quantities of products for purposes of domestic trade, nor to create a large demand for articles of

manufacture. In these circumstances, every individual must rely largely upon his own resources with respect both to production and to consumption. Under these conditions the nation can never develop a complete system of transportation, and can thus never reap the enormous advantages associated with the possession of such a system.

The inevitable consequence of such a situation is national weakness—both intellectual and material, individual and political. These effects are all the more dangerous in case adjacent nations have pursued just the contrary course, advancing at every point where we are undergoing retrogression, the courage, energy, and spirit of enterprise of their citizens being heightened by the prospect of a brighter future, while we, on the other hand, experience ever greater apathy and dejection in the face of a future which has naught to offer.

History offers instances of the decline of entire nations in consequence of their inability to solve, at the crucial moment, the weighty problem of assuring, through the establishment of manufactures of their own and the creation of a vigorous industrial and commercial class, their intellectual, economic, and political independence.

## LIST: THE NATIONAL DISTRIBUTION OF BUSINESS OPERATIONS AND THE UNION OF THE NATIONAL PRODUCTIVE FORCES[1]

While the School[2] owes to its distinguished founder the discovery of that natural law that it has designated as division of labor, yet neither Adam Smith nor any of his followers has thoroughly examined the nature of this law and traced its most important consequences.

The very expression "division of labor" is inadequate, producing necessarily a false or at least an inadequate conception.

Division of labor occurs when a savage, in the course of one and the same day, goes hunting or fishing, fells trees, repairs his wigwam, makes arrows, nets, and clothes; but we are likewise

[1] List, National System, chap. xiii (Vol. I, pp. 239–254, of Jena edition, 1910).
[2] By "the School," List means the school of Adam Smith and his followers, completely dominant at his time in British thought. (Ed.)

confronted with division of labor when, in accordance with Adam Smith's illustration, ten different persons divide among themselves the different operations involved in the manufacture of a pin. The former is an objective, the latter a subjective, division of labor; the former procedure hinders production, the latter promotes it. The essential difference between the two is to be found in the fact that in the former case *one* person divides his work for the purpose of producing *different* objects, while in the latter case *several* persons distribute their efforts for the production of a *single* object.

Both operations may, on the other hand, with equal propriety be characterized as a *union of labor*: the savage associates different tasks with one and the same person, while in the manufacture of pins different persons unite for purposes of joint production.

The essence of the natural law in terms of which the School explains such important phenomena of social economy is evidently not merely a division of labor, but a distribution of different manufacturing operations among several individuals, and at the same time an association or union of different activities, views, and forces for the purpose of joint production. The reason for the productivity of these operations is to be found not merely in the division resorted to, but, rather, essentially in the association. Adam Smith himself no doubt perceives this distinction when he says: "The necessaries of life of the lowest members of society are a product of joint labor and of the coöperation of a number of individuals." What a pity that he did not pursue this idea—so clearly expressed—of social labor!

If we pause to examine the illustration of the pin factory given by Adam Smith for the purpose of clarifying the advantages of the division of labor, and seek the ultimate causes of the fact that ten persons, associated in the factory, can produce a far greater number of pins than if each individual carried on the entire process separately, we find that the division of the manufacturing processes without the union of the productive forces for the achievement of a joint purpose could promote production to only a slight extent. In order that such a result may be attained, the different individuals must be associated both intellectually and physically and must work together. The one who makes the heads of the pins must be assured of the work of the one who makes the points, lest he run the risk

of manufacturing pinheads to no purpose. The performance of each must stand in the proper relation to that of the others; the workers must live as close together as possible; their coöperation must be assured. Let us assume, for example, that each of these ten workmen lived in a different country: how frequently their coöperation would be interfered with by war, transportation difficulties, commercial crises, etc.! How much more expensive would be the product, and how greatly would the advantages of division of labor be reduced, in consequence! And would not the withdrawal or exclusion of a single member of this association block the activity of all the other members?

The School, in designating solely the division or distribution of operations as the essence of the natural law in question, made the mistake of applying it merely to the individual factory or farm, failing to see that the same law extends its operation to the whole field of manufactures and agriculture—to the entire economy of the nation.

Just as the pin factory owes its success solely to the union of the productive forces of the individuals, so is the prosperity of every type of factory dependent upon the association of its productive forces with those of all other kinds of factories and industries. It is requisite to the success of a machine factory, for example, that the mines and the metal factories supply it with the necessary materials and that all of the hundred different kinds of factories which require machines buy its products. Without machine factories a nation would run the risk of losing in time of war the greater part of its manufacturing resources.

In like manner the entire body of industry, in its relations to the sum total of agriculture, and the latter in its relations to the former, thrive best the more closely related they are to one another, and the less their interaction is subjected to interruption. The advantages of their association under one and the same political authority in time of war, strained international relations, commercial crises, failure of crops, etc., are no less evident than are the advantages of the union, under one and the same roof, of those associated with a pin factory.

Smith maintains that division of labor is not applicable to agriculture in the same degree as to factories; he had in mind merely

the individual factory and the individual estate. He failed to extend the application of his principle to entire regions and provinces. Nowhere do the distribution of operations connected with an enterprise and the union of productive forces exert a greater influence than where each region and each province is in a position to devote itself, exclusively or at least principally, to those branches of agricultural production to which it is best adapted by nature. In one region grain and hops have the preference; in another, wine and fruit; in a third, wood and cattle-raising. If every region devotes itself to all these branches of production, it is clear that soil and labor can by no means prove so productive as where each individual region concerns itself chiefly with those branches of production with respect to which it is particularly favored by nature, exchanging the surplus of its own characteristic products for the surplus of those provinces which similarly possess a peculiar natural advantage but with reference to different raw materials and necessaries of life. This distribution of business operations, this association of the productive forces employed in agriculture, is possible only in a country which has attained to the highest development in all branches of factory industry. For it is only in a country so situated that there is a large demand for the most diversified products and that the demand for surplus agricultural produce is so certain and so considerable that the producer may be sure that either this year or next he can dispose of all his surplus at reasonable prices; it is only under such circumstances that large amounts of capital can be devoted to speculation in domestic produce and its storage, and that improvements of transportation systems, such as canals and railroads, steamship lines, and highways, can be profitably effected on a large scale. And it is only by means of a perfected transportation system that every region or province is enabled to share with all the other provinces, even the most remote, the surplus quantities of its characteristic products, procuring in return the surplus of commodities peculiar to these regions. When everyone himself produces what he needs, there is scant opportunity for exchange, and hence no need for expensive improvements in transportation.

One should note the manner in which the increase of productive forces, in consequence of division of labor and association of individual operatives, commences in connection with the individual

factory, progressing until it assumes the proportions of a national association: the factory thrives in proportion to the degree of distribution of the processes involved, in accordance with the closeness of association on the part of the workmen, and to the extent to which is assured the coöperation of each individual and each part with the whole. The productive power of each individual factory increases proportionately to the development of the entire body of manufacturing resources of the country, in all their ramifications, and to the degree in which these resources are bound up with all other branches of industry. The productivity of agriculture progresses in proportion to the closeness with which it is associated, geographically, commercially, and politically, with a manufacturing system highly developed in all its branches. The measure of the development of the manufacturing resources will be that of the progress in the distribution of the processes or operations and in the union of the productive forces of agriculture, whereby the latter is raised to the highest plane of perfection. The nation which possesses the greatest productive power and hence the greatest wealth will accordingly be that which, within its own territory, has brought its manufacturing resources in all their ramifications to the highest degree of perfection, and whose territory and agricultural production are large enough to provide its factory population with the greater part of the provisions and raw materials which it requires.

Let us consider the converse of this argument. A nation which possesses only agriculture and the scantiest and most indispensable industries lacks the primary and most important distribution of productive operations among its citizens, and hence the most important half of its productive resources; in fact, it lacks even an advantageous distribution of operations in the individual branches of agriculture. A nation so imperfectly developed will not only not be half so productive as one fully developed; but, assuming a territory equally large or much larger and an equal or much greater population, its productive power will perhaps be able to create scarcely one fifth, perhaps scarcely one tenth, of the material wealth which a fully developed nation can create. The reason is the same as that which explains why, in a highly complicated factory, ten persons produce not merely ten times but perhaps thirty times as much as

a single individual, and why a man with one arm finds his capacity for work reduced by not simply one half but by an enormous amount, as compared with the work which can be accomplished by a man with two arms. This loss of productive capacity will be all the greater in proportion to the greater possibilities of promoting the work of the factory by the use of machines, and the fewer opportunities for applying machinery to agricultural purposes. A portion of the productive energy which the agricultural nation thus loses will accrue to that nation which exchanges its manufactures in return for agricultural products. But this constitutes a positive loss only in case the agricultural nation has already reached the stage of civilization and of political development requisite for the development of manufacturing resources. But if it has not yet reached this stage; if its status is still that of a barbarous or half-civilized people; if its productive power in the field of agriculture is still in the most primitive stage; if it is still possible for the importation of foreign manufactures and the exportation of raw products markedly to increase its prosperity from year to year, and to stimulate and develop its intellectual and social forces; if this traffic is not interfered with by foreign prohibitions upon the importation of raw materials or by war, or if the territory of the agricultural nation is situated in the torrid zone;—under these circumstances the advantage will be equally great and natural for both sides, since, under the influence of such an exchange of domestic products for articles of foreign manufacture, a nation so situated advances with infinitely greater speed and safety in the direction of civilization and the development of its productive powers in general than if it had to depend for its development wholly upon itself. On the other hand, if the agricultural nation has already attained the culmination of its agricultural development—in so far as this can be achieved through the influence of foreign trade—or if the manufacturing nation refuses to accept the products of the agrarian nation as payment for its manufactures, and if at the same time, owing to successful competition on the part of the manufacturing nations in the markets of the agricultural nation, it is impossible for the latter successfully to establish factories of its own, then the productive forces in the field of agriculture in question are threatened with paralysis.

The term *arrested agriculture* may be applied to a condition in which, owing to the lack of efficient or gradually developing manufacturing resources, the entire increase in population devotes itself to agriculture, consumes the surplus quantities of agricultural products, and, as soon as the age of maturity has been reached, either emigrates or else distributes among itself and the landowners already established the available landholdings, until the holdings of each family have become so small that a family is able to produce only the scantiest quantities of foodstuffs and raw materials, such as are necessary to supply its own needs, being unable to create any considerable surplus such as it might dispose of in return for the necessary articles of manufacture. Where there is a normal development of the productive forces the greater part of the increase in the agrarian population should be transferred, as soon as the nation has attained a certain degree of development, to the factories; and surplus agricultural products should serve, partly to supply the factory population with means of subsistence and with raw materials, and partly to provide the landowners with the manufactured articles, machines, and utensils necessary for their consumption and for increasing their production.

If this relation has been established at the proper stage, the productive forces of agriculture and industry exactly balance each other, and do so indefinitely: the demand for agricultural products on the part of the industrial population becomes so large that the number of farm-laborers and the parceling-out of the available land will exactly fit the exigencies of producing the maximum surplus. The amount of this surplus will determine the quantity of manufactured products which the agrarian population will be able to consume. A progressive increase in the surplus of agricultural products will result in a constantly increasing demand for factory operatives. The surplus agricultural population will, accordingly, find continuous opportunity for work in the factories, and the manufacturing population will finally not only equal but far exceed the farming population. The latter case is that of England; the former, that of a part of France and Germany. England was led, chiefly in consequence of the sheep farms and woolen mills which were established there on a large scale much earlier than in other countries, to effect this normal distribution of productive operations between the two chief

branches of the industry. In other countries agriculture declined, chiefly in consequence of the influence of feudalism and the rule of armed force. The possession of landed property served only to create prestige and authority, in so far as it became possible thereby to support the vassals required by the feudal lord for his private warfare. The more vassals he possessed, the greater the number of warriors at his disposal. Besides, the crudeness of the age made it impossible for the lord of the manor to utilize his income in any other form than in the maintenance of a large number of retainers; and he knew no better way to pay these vassals and to attach them to his person than to give them a piece of land to cultivate, in return for the pledge of personal service and a small payment of tribute in kind. In this way was laid, in artificial fashion, the foundation for the excessive parceling-out of land; and if now an effort is being made, by the exercise of executive power, again to alter this situation by artificial methods, the government is simply restoring the original status.

The only way to check the progressive deterioration of a nation's agricultural resources and, so far as it has been occasioned by the nature of earlier institutions, gradually to remedy the situation in question is—apart from the fostering of emigration—the creation of domestic manufacturing resources, whereby the increase in population is gradually attracted to the factories and a greater demand is created for agricultural products, and the cultivation of larger farms is hence made more profitable, the farmer being encouraged to extract from his land as large a surplus product as possible.

The degree of productive power exercised by the agriculturist and the laborer engaged in farming will always be dependent upon the ease or difficulty with which is effected the exchange of agricultural products for articles of manufacture and for miscellaneous products. We have demonstrated elsewhere, by citing the example of England, that foreign trade may be of great advantage in this respect, in the case of a nation on a low plane of development. But a nation which is already well advanced in respect to civilization, amount of available capital, and population will find that the possession of manufacturing resources of its own is infinitely more advantageous in its effect upon agriculture than is the most prosperous foreign trade in the absence of manufactures. This is because such resources

guarantee it against all the fluctuations due to war or foreign trade-prohibitions and commercial crises; because it saves the greater part of the costs of transportation and the trading profits associated with the shipment of its products and the importation of manufactured articles; because it derives the greatest benefit from the improvements in transportation stimulated by the needs of manufacturing industry, and in connection with which a group of hitherto latent personal and natural forces is developed; and because, in general, the interaction of manufacturing and agricultural forces increases in proportion to the closeness of the relations obtaining between agriculturist and manufacturer and to their freedom from obstacles of any sort whereby they are hampered in the exchange of their various products.

In my letters to Mr. Charles J. Ingersoll, President of the Pennsylvania Society for the Promotion of Manufactures and the Mechanic Arts, written in 1828 (Outlines of a New System of Political Economy), I sought to elucidate in the following manner the advantages of uniting, in one and the same country, under one and the same political rule, the resources of manufacturing and agriculture: "Suppose that you did not understand the art of grinding corn—something certainly considered a great art in its day; suppose, further, you were unfamiliar with the art of baking bread, just as, according to Anderson, the genuine art of salting herrings had not yet been discovered by the British as late as the seventeenth century; suppose, accordingly, that you had to send your grain to England, there to have it transformed into meal and bread: how much of this grain would be retained by the English as compensation for the work of grinding and baking? How much of it would be consumed by the draymen, the sailors, and the merchants concerned with exporting the grain and importing the bread? How much would return to the hands of those who had planted it? There is no question that foreign trade would play an important rôle in this connection, but it is very doubtful whether this trade would be very conducive to the welfare and independence of the nation. Consider for a moment what would be the position, in case of war between this country (North America) and Great Britain, of those who produce grain for English mills and bakeries, and what would be the situation of those who consume English bread. But just as

the economic well-being of the farmer who raises grain requires that the miller who grinds it shall live in his vicinity, in the same way the welfare of the agriculturist in general demands that the manufacturer shall be readily accessible, that of a rural district requires the presence of a prosperous industrial city in its midst, and that of the entire body of the agriculture of a country demands that the domestic manufacturing resources should be developed to the maximum of their capacity."

Let us compare the status of agriculture in the vicinity of a populous city with its condition in remote provinces. In the latter case the farmer can raise, for sale, only those crops which can stand the strain of transportation to distant points, and which cannot be supplied by regions less remote, at lower prices, and in better qualities. A large part of his profit is absorbed by the costs of transportation. It is difficult for him to secure the capital which could be so profitably devoted to the development of his farm. Owing to the lack of stimulating examples and of means of instruction, new methods of procedure, better implements, and new methods of cultivation will be introduced only with difficulty. The laborers themselves, owing to bad example and to the absence of the stimuli necessary for the proper exertion and emulation, will not develop their productive powers to any extent and will become slaves to routine and slothfulness.

The agriculturist who lives in the vicinity of a city, on the other hand, is in a position to devote every bit of land to the type of cultivation for which the soil is best adapted. He can produce the greatest variety of things to good advantage. Garden truck, poultry, eggs, milk and butter, fruit, and commodities which the more remotely situated farmer regards as insignificant accessories will yield him a handsome profit. While the former must confine himself merely to cattle-raising, the latter will derive much greater profit from the fattening of animals, and will be hence impelled to perfect the cultivation of forage. A multitude of things which to the more remote agriculturist appear to be of little or no value—for example, stone, sand, water-power, etc.—he will be able to turn to excellent account. The greatest number of machines and implements, of the best quality, and the best methods of instruction are at his disposal. He finds it easy to obtain the capital necessary for the improvement

of his farm. Farm-owners and laborers, owing to the pleasures which the city affords, the spirit of emulation which it inculcates, and the ease with which they can earn a living, will be induced to summon up all their mental and physical powers for the improvement of their condition. Precisely the same difference obtains between a nation which combines agriculture and manufactures in the same territory and a nation which exchanges its own agricultural produce for commodities of foreign manufacture.

The whole social status of a nation in general may be judged in accordance with the principle of the division of labor and the association of productive forces. The relation of the pin to the pin factory is paralleled by that of national well-being to the great association called the nation. The most important division of occupations in the nation is that of the intellectual from the material ones. Each of these groups limits the other. The greater the contribution of the intellectual and spiritual producers to the advancement of morality, the religious spirit, enlightenment, dissemination of knowledge and freedom, political progress, the domestic security of person and property, and the external independence and power of the nation, the greater will be the volume of material production; while the greater the volume of production of material goods, the greater will be the capacity for the production of intellectual and spiritual values.

The highest manifestation of the division of labor and of the association of the productive forces in connection with material production is represented in the case of agriculture and manufactures. Both, as we have shown, are conditioned reciprocally.

As in the case of the pin factory, so in the case of the nation, the productivity of each individual, each separate branch of production, and, finally, of the whole social structure requires that the activity of every individual stand in the right relation to the activity of every other individual. This relation is designated as the balance or harmony of the productive forces. A nation may possess too many philosophers, philologists, and men of letters, and a deficient number of technicians, merchants, and mariners. This results from highly developed literary or academic culture, not supported by a corresponding development of manufacturing resources nor by extensive domestic and foreign trade: the situation is parallel

to that of a pin factory in which the number of pinheads manufactured should far exceed that of the points. The superfluous pinheads in such a nation are represented by a mass of useless books, subtle systems, and learned bickerings, which serve more to becloud than to cultivate the mind of the nation, diverting the latter from useful occupations and hampering the development of the productive powers of the nation in almost the same way as if it possessed too many priests and too few teachers for the instruction of its youth, too many soldiers and too few statesmen, an excessive number of administrators and a dearth of judges and legal counselors.

A nation which pursues merely agriculture is akin to an individual who is hampered in the work of material production by the loss of an arm. Trade is merely an intermediary in the service of agricultural and manufacturing resources and their separate branches. A nation which exchanges agricultural products for commodities of foreign manufacture may be compared to an individual with one arm who depends upon the assistance lent by the arm of a stranger. This support is of service to the nation but is not so advantageous as would be the possession of two arms of its own—if for no other reason because its activity is dependent upon the caprice of another. If it possesses its own manufacturing resources it can produce an amount of necessaries of life and raw materials equivalent to what is consumed by its own manufactures and industrial population; but if it is dependent upon foreign manufactures, it can produce only such surplus quantities as foreign countries are unable to produce themselves and as they are obliged to purchase abroad.

The relation of division of labor and association of productive forces among the different nations of the earth is precisely the same as that which obtains among the different regions of one and the same country. In the former case this adjustment is effected by means of international trade; in the latter case, by means of domestic or national trade. The international association of productive forces is, however, very imperfect, inasmuch as it is subjected to frequent interruption in consequence of war, political measures, commercial crises, etc. Although this relation represents the highest manifestation of the phenomenon in question, inasmuch as it serves to bring together the different nations of the earth, it is, however, from the standpoint of the well-being of individual nations

on a high plane of civilization, the least important factor—a fact which is academically recognized by the proposition that the domestic market of a nation is incomparably more important than the foreign market. From this fact may be deduced the proposition that it is to the interest of every great nation to concentrate its efforts upon the *national* union of its productive powers, subordinating to this endeavor the quest for *international* association.

International as well as national division of labor is largely determined by the climate and by nature in general. It is not possible in every country to produce tea, as in China, spices, as in Java, cotton, as in Louisiana, or grain, wool, fruit, and articles of manufacture, as in the countries of the temperate zone. It would be folly for a nation to attempt to obtain by means of national division of labor, i. e., by means of domestic production, commodities to the production of which it is not adapted by nature and which it can obtain more cheaply and to better advantage by means of international division of labor, i.e., through foreign trade; just as it would be indicative of deficient national civilization or enterprise for a nation to fail to utilize all its available natural resources for the purpose of satisfying its domestic needs and, by means of a surplus of products, of obtaining those essential commodities to the production of which its own territory is not adapted by nature.

Those countries which are most favored by nature with respect to national and international division of labor are evidently those whose soil produces the best quality and the largest quantity of the commonest necessaries of life and whose climate is most conducive to physical and mental exertion—namely, the countries of the temperate zone.. For it is these countries which are best adapted to the development of manufacturing resources, by means of which a nation is able not only to attain the highest degree of intellectual and social development and political power but also to compel the countries of the torrid zone and the nations which are on a lower plane of civilization in a certain sense to pay it tribute. It is, accordingly, the countries of the temperate zone which, above all others, are summoned to the task of bringing the national division of labor to its highest point of perfection and of utilizing the international division of labor for the purpose of enriching themselves.

* * * * * * * * * * *

# XI

## BASTIAT: ECONOMIC SOPHISMS[1]

* * * * * * * * * * *

### IV. Equalizing the Conditions of Production

IT IS said—but in order not to be accused of putting sophisms into the mouths of the protectionists, I cite the words of one of their most vigorous champions.

"It has been thought that protection in our case should simply represent the difference existing between the cost price of a commodity produced by us and the cost price of a similar commodity produced by our neighbors. . . . A protective duty reckoned upon such foundations would secure only free competition . . .; free competition obtains only where there is equality of conditions and expenses. When a horse-race is in question, the load that each racer is to carry is weighed, and conditions are equalized; otherwise they would not be competitors. When commerce is in question, if one of the vendors can furnish his wares at a lower price he ceases to be a competitor and becomes a monopolist. . . . Cut off that protection which represents the difference in the cost price and the foreigner invades your market and acquires a monopoly."[2]

"Everyone ought to wish for himself, as well as for others, that the production of his country should be protected against foreign competition, whenever the latter is able to furnish the products at a lower price."[3]

This argument recurs incessantly in the writing of the protectionist school. I propose to examine it with care—that is to say that I entreat the attention and even the patience of the reader. I shall consider first the inequalities inherent by nature, then those consequent upon the diversity of the imposts.

[1] Frédéric Bastiat (1801–1850), Sophismes Économiques, 1st series (1847) (pp. 23–53, of Brussels edition, 1851).

[2] Viscount de Romanet.

[3] Mathieu de Dombasle.

Here, as elsewhere, we again find the theorists of protection assuming the point of view of the protector, while we enter the lists on behalf of those unhappy consumers of whom they absolutely refuse to take account. They compare the industrial field to the turf. But on the turf the race is both means and aim. The public takes no interest in the contest outside of the contest itself. When you start your horses with the sole aim of finding out which is the best racer, I realize that you should equalize the loads. But if your aim were to have a piece of important and urgent news reach the goal as soon as possible, could you, without inconsistency, invent obstacles for the one that offered the best conditions of speed? That is, however, what you are doing in industry. You forget its desired result, which is well-being; you ignore it, indeed you sacrifice it, by a veritable begging of the question.

But since we cannot lead our adversaries to our point of view, let us assume theirs; let us examine the question from the standpoint of production.

I shall aim to establish:

1. That to equalize the conditions of labor is to attack the principle of exchange;

2. That it is not true that the labor of one country is stifled by the competition of more favored nations;

3. That even were it so, protective duties do not equalize the conditions of production;

4. That freedom equalizes those conditions as much as they can be equalized;

5. Finally, that it is the least favored nations that gain the most by exchange.

I. To equalize the conditions of labor is not only to obstruct certain exchanges, it is to attack the very principle of exchange, because exchange is based precisely upon that diversity, or, if you prefer, upon those inequalities of fertility, aptitudes, climates, temperature, which you wish to efface. If Guienne sends wines to Brittany, and Brittany sends grain to Guienne, it is because these two provinces are subject to different conditions of production. Is there any different law for international exchanges? To point out, as an objection to them, the inequalities of conditions which give rise to them and explain them is to attack them for the very thing

which constitutes their justification. If the protectionists were in command of sufficient logic and power, they would reduce men, like snails, to complete isolation. There is not, for that matter, a single one of their sophisms, which, submitted to the test of rigorous deductions, does not end in destruction and futility.

II. It is not true, in fact, that the inequality of conditions of two similar industries necessarily involves the failure of the one least favored. On the turf if one of the racers wins the prize, the other loses it; but where two horses labor to produce something useful, each one produces according to the measure of his strength, and it does not follow because the more vigorous one yields greater service that the weaker one yields none. Wheat is cultivated in all the departments of France, notwithstanding the enormous differences of fertility among them; and if it happens that there is one that does not cultivate it, it is because it is not good, even for itself, that it should do so. Likewise, analogy tells us that under the régime of freedom, despite similar differences, wheat would be produced in every country in Europe; and if it turned out that one of them abandoned its cultivation, it would be because it had found, in its own interest, a better use for its soil, its capital, and its labor. And why does not the fertility of one department paralyze the husbandman of a less favored neighboring department? Because economic phenomena have a flexibility, an elasticity, and resources of equalization, as it were, which seem wholly to escape the spokesmen of the protectionist school. They accuse us of being doctrinaires; but it is they that are doctrinaires of the most extreme type, if the doctrinaire spirit consists in constructing arguments upon a single fact and not upon the totality of the facts. In the above example it is the difference in the value of the soil which compensates for the difference of fertility. Your field yields three times as much as mine. Yes: but it cost you ten times as much, and I am still able to compete with you. That is the whole mystery. And note that superiority in some respects leads to inferiority in others. It is just because your soil is more fertile that it is dearer, so that it is not by accident but of necessity that an equilibrium is established or tends to be established; and can it be denied that freedom is the régime which favors that tendency the most?

I have cited a branch of agriculture; I could just as well have cited a branch of manufacture. There are tailors at Quimper, but that does not prevent there being tailors in Paris, although the latter pay so much more for their rent, their furniture, their workmen, and their food. But, on the other hand, they have a very different clientèle and that is sufficient, not only to restore the balance, but even to make it incline to their side.

Even, therefore, in considering the equalizing of the conditions of labor, it is requisite at least to examine whether freedom does not accomplish what is demanded of arbitrary interference. This natural leveling of economic phenomena is such an important factor in the question, and at the same time so fitted to arouse our admiration for the providential wisdom which directs the leveling government of society, that I beg permission to pause here a moment.

The protectionists tell you: Such a nation has the advantage over us of cheap coal, iron, machinery, capital; we cannot compete with them.

This proposition will be examined under other aspects. For the present I shall confine myself to the question of ascertaining whether, when a superiority and an inferiority exist they do not bear within themselves forces, tending the one upward and the other downward, which must bring about a just equilibrium.

Here are two countries, A and B. A possesses all sorts of advantages over B. You conclude from this that labor is concentrated at A and that B is powerless to accomplish anything. A, you say, sells much more than it buys; B buys much more than it sells. I could dispute that, but I take your standpoint.

According to the hypothesis, labor is in great demand in A, and presently its price rises.

Iron, coal, land, provisions, capital, are in great demand in A, and soon they rise in price.

At the same time, labor, iron, coal, land, provisions, capital, are all in very little demand in B, and soon everything drops in price.

Nor is this all. A always selling, B steadily buying, specie passes from B to A. It becomes abundant in A, scarce in B.

Abundance of specie, however, signifies that much of it is required to purchase anything. Hence in A to the real dearness caused

by a very active demand there is added a nominal dearness due to the excess of the precious metals.

Scarcity of specie signifies that little of it is required to make any purchases. Hence in B a nominal cheapness is added to real cheapness.

Under these circumstances, industry will be induced by all sorts of motives, by motives, if I may so express it, carried to the fourth power, to abandon A and establish itself in B.

Or, to get back to the domain of facts, let us observe that it would not wait till all this had happened, that sudden displacements are repellent to its nature, and that it would from the outset, under a régime of freedom have progressively divided and distributed itself between A and B, according to the laws of supply and demand; that is to say, according to the laws of justice and utility.

And when I say that if it were possible that industry should concentrate itself at one point there would arise within its own bosom by reason of that very fact an irresistible force of decentralization, I am not uttering a mere hypothesis.

Let us hear what was said by a manufacturer in the Chamber of Commerce of Manchester (I omit the figures with which he supported his demonstration):

"Formerly we exported cloths; then this exportation made way for that of yarn, which is the raw material of cloths; subsequently, for that of machines, which are the instruments of production of yarn; later on, for that of capital, with which we construct our machines; and finally, for that of our workmen and our industrial genius, which are the source of our capital. All these elements of labor, one after the other, exercised their activity where they found greater advantages—where living was cheaper or life easier—and we see now in Prussia, Austria, Switzerland, Italy, enormous factories founded with English capital, manned by English labor and directed by English engineers."

You can readily observe that nature, or rather Providence, more ingenious, wiser, more foreseeing than your narrow and rigid theory supposes, has not been desirous of that concentration of labor, that monopoly of every superiority, about which you argue as though it were an absolute and irremediable fact. It has seen to it, by means as simple as they are infallible, that there shall be dispersion,

diffusion, solidarity, simultaneous progress—all things which your restrictive laws paralyze as far as in them lies; for their tendency, in isolating the peoples, is to render the diversity of their condition much more marked, to prevent equalization, to obstruct coöperation, to neutralize natural counterpoises, and to keep the various peoples fixed in their respective superiority or inferiority.

III. In the third place, to say that the conditions of production are equalized by a protective duty is to use a false form of expression as the vehicle of an error. It is not true that an import duty equalizes the conditions of production. They remain the same after the duty as they were before. What the duty equalizes, at the utmost, is the conditions of sale. It will perhaps be said that I am merely playing with words, but I return the accusation to my adversaries. It is for them to prove that production and sale are synonymous; otherwise I am justified in charging that, if they do not play with words, they at least confuse the meaning of them.

Let me illustrate my point by an example.

Suppose that it occurs to some Parisian speculators to engage in the cultivation of oranges. They know that Portuguese oranges can be sold in Paris for 10 centimes, while they, on account of their necessary expenses, the hothouses which they will require, the cold which will often injure the crop, will be unable to ask less than a franc as a remunerative price. They demand that the oranges of Portugal should have a duty of 90 centimes imposed upon them. By means of that duty, the conditions of production, they say, will be equalized, and the Chamber yielding, as usual, to such an argument, inscribes upon the tariff a duty of 90 centimes per foreign orange.

Very well! I say that the conditions of production are in nowise changed. The law has not taken away any of the heat of the sun of Lisbon nor the frequency or intensity of the frosts of Paris. The ripening of oranges will continue to go on naturally on the banks of the Tagus and artificially on the banks of the Seine; that is to say, it will require much more human labor in the one country than in the other. What will be equalized are the conditions of sale: the Portuguese will have to sell their oranges at a franc, of which 90 centimes go to paying the tax. It will evidently be paid by the French consumer. And note the oddity of the result. Upon each Portuguese orange consumed, the country will lose nothing; for the 90 centimes

paid in excess by the consumer will go to the Treasury. There will be a displacement, but there will be no loss. Upon each French orange consumed, however, there will be a loss of 90 centimes or thereabout, for the purchaser will surely lose it, and the vendor will likewise surely not gain it, since, according to the hypothesis, he will have obtained only the ordinary return on the cost of production. I leave to the protectionists the task of recording the conclusion.

IV. If I have insisted upon this distinction between the conditions of production and the conditions of sale, a distinction which the protectionists will no doubt find paradoxical, it is because it leads me to afflict them with yet another paradox much stranger still, and it is this: Do you really want to equalize the conditions of production? Have free trade, then.

Now really, the protectionists will say, this is carrying your *jeux d'esprit* too far. Well then, if only as a matter of curiosity, I beg the advocates of protection to follow my argument to its close. It will not be long. I return to my example.

If one agrees, for the moment, to suppose that the average daily gain of every Frenchman is one franc, it will indisputably follow that to produce an orange directly in France it will take a day's labor or its equivalent, while to produce what would pay for a Portuguese orange would require but one-tenth of that day, which signifies simply that the sun does in Portugal what labor does in Paris. Now, is it not evident that if I can produce an orange, or, what amounts to the same thing, the wherewithal to purchase it, with one-tenth of a day's labor, I am placed, relatively to that production, exactly under the same conditions as the Portuguese producer himself, barring the transportation, the cost of which falls upon me? It is certain, then, that freedom equalizes the conditions of production, direct or indirect, as much as they can be equalized, since it allows only an inevitable difference to remain, that of transportation.

I add that freedom equalizes likewise the conditions of enjoyment, of satisfaction, of consumption, a thing which is never taken into account, and which is nevertheless the essential point, since consumption is clearly the ultimate aim of all our industrial efforts. Thanks to free trade, we should be in the enjoyment of the Portuguese sun like Portugal itself; and the inhabitants of Havre would have within

their reach, just as well as those of London, and under the same conditions, the advantages that nature has bestowed upon Newcastle in the way of mineral resources.

V, You protectionists think me in a paradoxical humor. Well! I wish to go still further. I say, and I believe it sincerely, that if two countries find themselves placed under conditions of unequal production, it is the one that is least favored by nature that has most to gain by freedom of exchange. In order to prove it, I should have to depart somewhat from the form suitable to this work. I shall do so, however; first, because the whole question is here in issue, and furthermore because it will furnish me with an occasion to expound an economic law that is of the highest importance, and which, if properly understood, appears to me calculated to bring back to the science all those sects which in our day seek in the regions of chimeras that social harmony which they have not been able to discover in nature. I mean the law of consumption, which most economists may perhaps be reproached with having neglected far too much.

Consumption is the end, the final cause, of all economic phenomena, and it is in it, consequently, that their ultimate and definitive solution is to be found.

* * * * * * * * * * *

In the making of every product nature and man conspire. But the useful part that nature contributes is always gratuitous. It is only that portion of utility which is due to human labor that constitutes the object of exchange, and consequently of remuneration. The latter doubtless varies greatly according to the intensity of the work, its skilfulness, promptitude, timeliness, the demand for it, the momentary absence of competition, etc., etc. But it is none the less true, in principle, that the contribution of the natural laws which are common to all does not enter at all into the price of the product.

We do not pay for respirable air, although it is so useful to us that without it we could not live two minutes. We do not pay for it, however, because nature supplies it to us without the intervention of human labor. But if we wish to separate one of the gases which compose it, for example for the purpose of an experiment, we must go to a certain amount of trouble; or if we have another person do

the work, we must compensate him by an equivalent amount of work which we have expended upon some other product. Whence we see that the subject-matter of exchange is exertion, efforts, labor. It is not really the oxygen that I am paying for, since it is at my disposal everywhere, but the labor that was required to release it, a labor which I have been spared and which I must, of course, pay for. Will it be objected that there are other things to be paid for, expenditures, materials, apparatus? But in these things, again it is the labor I am paying for. The price of the coal employed represents the labor that was required to extract and transport it.

We do not pay for the light of the sun, because nature lavishes it upon us. But we pay for gaslight, light furnished by tallow, oil, wax, because there is human labor to be paid for; and, be it observed, it is so clearly to labor and not to utility that the remuneration is proportioned, that it may easily happen that one of these forms of light, though much more intense than another, is nevertheless cheaper. It suffices for this that the same amount of human labor furnishes more of it.

If, when the water-carrier comes to supply my house, I had to pay him according to the absolute utility of the water, my means would not suffice. But I pay him in proportion to the trouble he has taken. If he demanded more, others would take the trouble, and, finally, if need be, I should do so myself. The water is not in reality the subject-matter of our transaction; it is the labor involved in connection with it. This point of view is so important, and the conclusions that I shall draw from it throw so much light on the question of international free trade, that I feel I must elucidate my thought by additional examples.

The amount of alimentary substance contained in potatoes does not cost us very much, because it is obtained with little labor. We pay more for wheat, because, in order to produce it, nature demands a greater amount of human labor. It is obvious that if nature did for the latter what it does for the former the prices would tend to equality. It is not possible that the cultivator of wheat should permanently gain much more than the cultivator of potatoes. The law of competition forbids that.

If, by a fortunate miracle, the fertility of all arable land should be increased, it is not the farmer but the consumer who would reap

the advantage of that phenomenon, because it would result in abundance, in low prices. There would be less labor embodied in every hectolitre of grain, and the farmer could exchange it only for a less amount of labor embodied in any other product. If, on the contrary, the fertility of the soil were suddenly to diminish, nature's share in the production would be less, that of labor greater, and the product dearer. I was right therefore in saying that it is in the domain of consumption, of humanity, that all economic phenomena find their ultimate significance. So long as their effects have not been followed out to that point, so long as one stops at the immediate effects, at those which affect a man or a class of men in their capacity as producers, one is not an economist—any more than a person would be a physician who, instead of observing the effects of a beverage upon the whole system, should be satisfied to judge of its working by observing how it affects the palate or the throat.

The tropical regions are greatly favored for the production of sugar, of coffee. This means that nature performs the greatest part of the work and leaves little for labor to do. But who then reaps the advantages of this liberality of nature? It is not those regions, for competition brings it about that they obtain only the remuneration of labor; it is humanity, for the result of that liberality is termed cheapness, and cheapness belongs to everybody.

Take a temperate region in which coal and iron ore are found at the surface of the land, where you have but to stoop to get them. At first, the inhabitants will profit by this happy circumstance, I quite agree. But before long, competition intervening, the price of coal and iron will drop to a point where nature's gift will be gratuitously acquired by all and there will remain only remuneration for human labor, at the ordinary rate.

Thus the bounteousness of nature, like the improvements introduced in the processes of production, is, or tends steadily to become, under the law of competition, the common and gratuitous heritage of the consumers, of the masses, of humanity. Hence the countries that do not possess those advantages have everything to gain by exchanging with those who do possess them, because the exchange takes place between the efforts involved, without regard to the natural utilities bound up with those efforts; and it is evidently the most favored countries that have embodied most of these natural

utilities. Their products, representing less labor, exchange for less; in other words, they are cheaper, and if all the bounty of nature resolves itself into cheapness, evidently it is not the producing but the consuming country that reaps its benefits.

This circumstance shows us the enormous absurdity of a consuming country that rejects a product just because it is cheap; it is as if it said: "I don't want anything that nature gives. You demand of me two units of labor in order to supply me with a product that I can produce only by four units of labor; you are able to do it because in your case nature has done half the work. Well! as for me, I reject it, and I shall wait until your climate becomes more inclement and will compel you to demand of me four units of labor, so that I can trade with you upon an equal footing."

A is a favored country. B is a country harshly treated by nature. I say that exchange is advantageous to both of them, but particularly to B, because exchange does not consist of utilities against utilities, but of value against value. Now, A contributes more utilities under the same value, since the utility of the product embraces what nature and labor together have contributed to it, while the value corresponds only to what labor has contributed. Thus, B's transaction is wholly to his advantage. In paying the producer of A simply for his labor, he receives into the bargain more utilities than he gives.

Let us state the general rule.

Exchange is a bartering of values, and, value being reduced by competition to represent labor, exchange is a bartering of equal quantities of labor. What nature has done for the exchanged products is given gratuitously and into the bargain on one side and the other, whence it strictly follows that exchange with the countries most favored by nature is the most advantageous.

The theory of which I have in this chapter sought to trace the lines and contours would demand a very comprehensive treatment. I have considered it only in its relations with my subject, commercial freedom. But perhaps the attentive reader may have perceived in it the fruitful germ which when fully developed should stifle not only protectionism but Fourierism, Saint-Simonism, communism, and all those schools which have for their object the exclusion from the government of the world of the law of competition. Regarded from the point of view of the producer, competition no doubt often clashes

with our individual and direct interests. But if we take the point of view of the general aim of all labor, of the universal well-being, in a word, of consumption, we shall find that competition plays, in the moral world, the same rôle that equilibrium does in the material world. It is the basis of true communism, of true socialism, of that equality of well-being and of conditions so greatly desired in our day; and if so many sincere publicists, so many reformers of good faith, demand these things from arbitrary interference, it is because they do not comprehend liberty.

* * * * * * * * * * *

## VII

*Petition of the Manufacturers of Candles, Tapers, Lamps, Chandeliers, Reflectors, Snuffers, Extinguishers, and of the Producers of Tallow, Oil, Resin, Alcohol, and, in General, Everything Connected with Illumination.*

To the Members of the Chamber of Deputies,

Gentlemen: You are on the right road. You reject abstract theories; abundance, cheapness, impress you but little. You concern yourself chiefly with the fate of the producer. You want to free him from foreign competition; in short, you want to reserve the national market to national labor.

We come to offer you an admirable opportunity to apply your—what shall we say? your theory? No, nothing is more deceptive than theory. Your doctrine? Your system? Your principle? But you do not like doctrines, you have a horror of systems, and, as for principles, you assert that there are no such things in social economy; we will say, then, your practice, your practice without theory and without principle.

We are subjected to the intolerable competition of a foreign rival, enjoying, as it appears, conditions so far superior to ours, for the production of light, that he inundates our national market at fabulously reduced prices, for as soon as he shows himself our sales cease, all the consumers turn to him, and a branch of French industry whose ramifications are innumerable is all of a sudden smitten with utter stagnation. That rival, which is no other than the sun, wages a war with

us so inexorable that we suspect he is stirred up by perfidious Albion (good diplomacy as times go!) since he treats that haughty island with a consideration dispensed with in our case.

We demand that you pass a law which shall ordain the closing of all windows, dormer-windows, reflectors, shutters, curtains, casements, bull's-eyes, shades, in short, of all openings, holes, slits, and fissures, through which the sun is accustomed to penetrate into houses, to the prejudice of the fine industries with which we flatter ourselves we have endowed the country, which could not without ingratitude abandon us to so unequal a conflict.

We beg you, gentlemen, not to look upon our request as a satire, and, at least, not to reject it without listening to the reasons that we advance in support of it.

And in the first place, if you close, as far as possible, all access to natural light, if you thus create a need of artificial light, what industry in France is there that would not in the end be encouraged?

If more tallow is consumed, more oxen and sheep will be needed, and we shall, in consequence, see an increase of artificial meadows, of meat, wool, leather, and, above all, of fertilizers, that basis of all agricultural wealth.

If more oil is consumed, we shall see the poppy, the olive-tree, colza, more extensively cultivated. These rich and exhausting plants will opportunely benefit by the fertility that the breeding of cattle will have communicated to our soil. Our heaths will be covered with resinous trees. Numerous swarms of bees will gather on our mountains the perfumed treasures which to-day are uselessly dissipated like the flowers whence they originate. There is thus not a single branch of agriculture which would not be greatly developed.

The same is the case with navigation: thousands of vessels will be engaged in whale fishery, and before long we shall have a navy capable of maintaining the honor of France and of answering to the patriotic susceptibility of the undersigned petitioners, candle merchants, etc.

But what shall we say of the specialties of Paris? Imagine the gilding, the bronzes, the crystals in chandeliers, lamps,

candlesticks, candelabra, glittering in spacious warehouses by the side of which those of to-day are mere insignificant shops.

Down to the very resin-gatherer on his moorland heights, or to the sad miner in the depths of his dark gallery, there is no one who will not see his wages and his well-being augmented.

Reflect upon it, gentlemen, and you will become convinced that there is perhaps not a single Frenchman, from the wealthy shareholder to the humblest match-vendor, whose condition would not be ameliorated by the success of our request.

We foresee your objections, gentlemen; but you will not oppose us with a single one of them which you have not gathered in the antiquated books of the partisans of commercial freedom. We defy you to say one word against us which will not at once rebound against yourselves and against the principle which governs your entire policy.

Will you tell us that if we profit by this protection France will not profit, because the consumer will pay the cost of it?

We will answer you: You no longer have the right to invoke the interests of the consumer. When he was at odds with the producer, you sacrificed him on every occasion. You did it in order to encourage labor, to enlarge the field of labor. You ought to do it again for the same motive.

You yourselves have met the objection. When you were told that the consumer is interested in the free importation of iron, coal, sesame, wheat, textiles, you said Yes, but the producer is interested in their exclusion. Well, then! If the consumers are interested in the admission of natural light, the producers are interested in its interdiction.

But, you went on to say, the producer and the consumer are one and the same. If the manufacturer profits by protection, he will cause the farmer to profit. If agriculture prospers, it will open markets for the factories. Very well! If you grant us the monopoly of illumination during the day, we shall, in the first place, purchase quantities of tallow, coal, oil, resin, wax, alcohol, silver, iron, bronze, crystals, to feed our industry, and, furthermore, we and our numerous

supplies having grown rich, we shall consume much and spread comfort to all the branches of national industry.

Will you say that the sunlight is a free gift, and to reject free gifts would be to reject wealth itself under the pretext of encouraging the means of acquiring it?

Then observe that you are striking a mortal blow at the very heart of your policy; observe that hitherto you have always rejected the foreign product precisely because it approximates the character of a free gift, and all the more the more it approximates it. For compliance with the importunities of the other monopolists you had but a half-motive; for the granting of our demand you have a complete motive; and to reject our appeal on the ground that it is better grounded than those others would be to state the equation $+ x = + -$; in other words, it would be heaping absurdity upon absurdity.

Labor and nature combine in varied proportions, according to countries and climates, in the creation of a product. The part that nature contributes to it is always gratuitous; it is labor's part that gives it value and is remunerated.

If a Lisbon orange is sold at half the price of a Paris orange, it is because a natural, and consequently a gratuitous, heat does for the one what the other owes to an artificial, and therefore a costly, heat.

Hence, when we get an orange from Portugal, it may be said that it is given us half gratuitously, half on account of the labor involved, or, in other words, at half price relatively to those of Paris.

Now it is precisely upon this half gratuity (pardon the word) that you base your argument for its exclusion. You say: How can home labor stand the competition of foreign labor, when the former has to do everything, and the latter has to do only half the work, the sun taking the rest upon itself? But if a half gratuity determines you to shut out competition, how is it that a complete gratuity would lead you to admit competition? You are either no logicians or, since you reject the half gratuity as injurious to our national

labor, you must *a fortiori* and with twice the emphasis reject the complete gratuity.

Once more, if a product, coal, iron, wheat, or textiles, comes to us from outside, and we can obtain it with less labor than if we produced it ourselves, the difference is a gift which is granted us. That gift is more or less considerable, according as the difference is greater or less. It is a quarter, a half, three-quarters of the value of the product, if the foreigner asks only three-quarters, half, quarter payment. It is as complete as possible when the donor, as in the case of the sun for light, demands nothing. The point is, and we state it formally, to ascertain whether you desire for France the benefit of gratuitous consumption or the pretended advantages of onerous labor. Choose, but be logical; for inasmuch as you will shut out, as you do, coal, iron, wheat, foreign textiles, in proportion as their price approaches zero, how inconsistent it is to admit the light of the sun, whose price is actually zero throughout the entire day!

# XII

## MÉLINE: REPORT OF THE TARIFF COMMISSION[1]

* * * * * * * * * * *

IT DEVOLVES upon me now to acquaint you with the principles which have guided your Commission, and the general reasons which justify its main contentions. As to the tariff details, the special reports will supply you with explanations of a kind to prove the correctness of the figures which we have adopted.

By a sort of tacit agreement, we excluded from the discussion, from the outset, all speculative controversies, all academic theories. We did not inaugurate our work by entering the lists in favor of free trade or of protection, as was done by previous tariff commissions. None of us maintained that France should be made to follow a policy of *laissez-faire et laisser-passer*, that she ought to resign herself to produce only what she could manufacture cheaper than others; finally, that the interest of the consumer transcended that of the producer and that everything should be sacrificed to him.

However, if theoretical questions did not form the subject of a regular debate, it is indubitable that they were found, with shades of distinction, at the basis of all the important resolutions. Tendencies towards free trade or protection collided with each other, as they always do, and it was evident from the first day that the Commission was divided into two distinct camps, entertaining different views and different aims.

The first, which formed a minority of the Commission, embraced the members whose economic ideal is manifestly the principle of commercial freedom; but the eminent and able men who compose it realize the actual situation too clearly to think for a moment of demanding an immediate application of their doctrine. They did

[1] Méline, F. J. (1838-    ), Rapport Général fait au nom de la Commission des Douanes chargée d'examiner le projet de loi relatif à l'établissement du tarif général des douanes (1892).

not even urge that France should at present proceed a step further in that direction. They would be satisfied with the step taken in 1860, and it is towards this that they have steadily directed their economic policy. All their efforts have tended to maintain, in principle, the régime of the treaties of 1860, particularly the duties as a whole which were appended to them and which were but slightly modified in 1881.

The majority of your Commission brought another view to bear upon the actual situation of our country and upon the system best adapted to develop its riches and the well-being of its workers. It does not regard a protective tariff as an absolute principle, a sort of dogma, as has so long been done in the case of free trade; it sees in protection, as in free trade, only measures of international regulation of exchange good or bad according to time, place, the economic and financial condition of the different peoples. In its view, that is best for a nation which assures to it the greatest amount of work, since the greater the quantity of work, the greater is the amount of capital, and consequently of wages for the working masses.

It is not astonished that England has adopted free trade and urges all other nations to follow the same policy; her own interest, indeed, commands her to do so. When one enjoys, as she does, natural advantages which secure preëminence over most of the countries of the world, when one has an advance of over a century and superabundant production, it is easy to open the doors to all the world; for no one is feared at home, and other countries must at all costs be invaded. That is why Cobden was a true benefactor of his country in procuring for it in France, and, thanks to France, in all Europe, unexpected outlets.

Who would dare to maintain that the situation of France is in any respect whatever comparable to that of England? All the mighty agencies of production which nature has lavished upon England—iron, coal, etc., an unequaled geographical position—have been parsimoniously granted to us, and we are but too often compelled to produce at a much higher cost than our rival. To these natural advantages must be added those which she derives from her formidable maritime power, the concentration of her industries, and the vast scale of her principal productions.

In treating with her we should never have lost sight of these causes of inferiority, insurmountable for us, and duties should have been imposed in accordance with them; we should, above all, never have forgotten that the domestic market of France is one of the finest and most envied in the world, that it represents an annual revenue of about 34 billion francs, and that it was folly to sacrifice a fortune so solidly acquired to the mere hope of increasing our exports. We know to-day how thoughtlessly, with what culpable generosity on our part, the duties of 1860 were fixed; they were so much below the divergence which differentiates production in the two countries, that a great number of industries were endangered. Many would have been given up but for the energy, the elasticity, of our industrial genius, the ability of our workmen, and, above all, our admirable spirit of economy which permits us to be satisfied with earnings often ridiculously low; but they drag along painfully, unable to have full play, and have for thirty years struggled, discouraged, with ever increasing difficulties. The same error was committed when, after negotiating with England, and impelled in the direction of imprudent concessions, we negotiated with the other countries; and thus our domestic market, of which we were the undisputed masters in 1860, was delivered over to the progressive invasion of foreign products.

### Treaties of 1860

Of course, we must not exaggerate anything, and we shall not go the length of saying that the treaties of 1860 have ruined France. We will even admit, if so desired, that for certain of our industries the existing duties might have been lowered without detriment; but it should have been done with discretion, defending French interests inch by inch, instead of surrendering them, as was done, with closed eyes, in the privacy of a cabinet of ministers.

If the treaties of 1860 did not produce all the untoward results that might have been feared, it is because France at that time enjoyed a comparative prosperity which it did not forfeit at once, and which, it must be recognized, she owed in great part to the protective system under which it was developed. And besides, she benefited, like the rest of the world, by the great discoveries which at

that period transformed all the conditions of production. The powerful impulse given to labor by the development of railways and of maritime transportation, by the telegraph and the improvement of the postal service, counterbalanced for a certain time the inadequacy of our economic policy.

But what we are entitled to assert is that if the treaties of 1860 had been better conceived in the interest of France and better drawn up, if they had not by a deplorable condescension towards the foreigner—the facts of which are known to us to-day—so gratuitously sacrificed our agriculture and so many of our industries, France would not have experienced the cruel trials which have been inflicted upon her. She would be to-day, from an economic and financial point of view, in an infinitely better position; her industrial and her national capital would be greater.

Facts are at hand which fully demonstrate this contention; they prove that the upward movement of affairs in France in the ten years preceding the treaties of 1860 has, from that year on, shown retardation instead of acceleration.

* * * * * * * * * * *

The consequence is that France, which in 1859 was a creditor of the foreigner to the amount 1,341,000,000 francs for the excess of exports over its imports of manufactured products, is now, 1888, only so to the sum of 1,098,000,000 francs. Even if we take the years 1889 and 1890, which our Exposition rendered so favorable to the export of our manufactured products, the excess of our exports, is only, for 1889, 1,280,000,000; for 1890, 1,312,000,000—that is to say, less than that of 1859.

We may judge from these few figures the benefit that France has derived from the treaties of 1860, of those treaties which were intended above all, in the conception of its author, to cause such a marvelous development of our export of manufactured products, and which have in reality only served to favor the invasion of our own market.

I know quite well that the objection is made that the general balance of trade is not to be found wholly in the tariff tables, that it is composed of many other factors, such as French investments abroad, the money spent by foreigners in France, the profit upon our exports, etc. We willingly admit all that, but it may well be

conceded to us that the activities of international exchange, such as is represented in the tariff tables, form, at all events, one of the very important factors of the general balance of trade, and we certainly have a right to note that the régime of 1860 does not seem to have improved that factor, but quite the contrary.

It is evident that we should be richer if our exports had been greater and our imports less; it is equally obvious that if the balance is considered from the point of view of the aggregate of French labor, it must be admitted that the balance yielded us by foreigners through the increase of their purchases has by no means compensated for that which they took from us by their sales.

## Increase of Duties in Foreign Countries

If we look around us, on the other hand, we shall notice that the various countries of the world, with few exceptions, have pursued a policy distinctly different from ours. We shall remark, above all, that those that were subjected, like us, to the duties of 1860 and have altered them, have improved their economic situation, which presents a striking contrast to that of our country.

Let us not discuss America, which has developed so prodigiously under the shelter of the protective system that to-day she commits the error of exaggeration without any necessity. Let us not even talk of Russia, which has likewise made such great progress for some years, because it would perhaps be retorted that it is an entirely new country which advances by a natural and irresistible impulse. But let us take Germany, let us take Austria-Hungary, which in the last decade have raised their duties in such considerable proportions, and let us see the results obtained. If we consider a period of ten years, from 1878 to 1888, we ascertain that in Germany exports did not cease to increase, while imports diminished in a significant measure. From the figure of 3,608,000,000 francs which exports had already attained in 1878, they rose in 1888 to 4,007,000,000. As to the imports, which attained in 1878 the sum of 4,892,000,000, they dropped in 1888 to 4,043,000,000. It follows that Germany, which in 1878 was a debtor, by reason of its excess of importations, to the extent of 1,283,000,000, was so only to the sum of 106,000,000 in 1888. If instead of going back ten years we

should go back twenty years, the results would be still more striking. Doubtless this ascending movement could not continue indefinitely, and we freely admit that at present it seems to have come to a halt.

In Austria-Hungary the results have been less brilliant, but they are nevertheless very satisfactory. The exports, which in 1878 amounted to 1,363,000,000, rose in 1888 to 1,518,000,000. As for the imports, they decreased from 1,150,000,000, the sum for 1878, to 1,110,000,000, the sum for 1888. The difference in favor of the exports, which in 1878 amounted to only 231,000,000, rose, therefore, in 1888 to 407,000,000. It seems to us that a system which produces such results is not calculated to discourage those who may be tempted to imitate it.

These examples suffice to demonstrate, contrary to a thesis maintained for a long time and which still counts ardent followers, that a nation can defend its home market without for that reason sacrificing its exports. The United States had already clearly illustrated that truth, and the only resource left for challenging the authority of such an example was to represent it as an exceptional country which could not be compared with any other. But, lo and behold, the same phenomenon is produced in the very heart of Europe under conditions such as no longer permit the denial of its demonstrative force.

It is finally beginning to be understood that exports are primarily the consequence of prosperous production, in secure possession of the home market, impelled by its very successes to seek outlets abroad, capable, if need be, of sacrifices in order to procure them; that, on the contrary, a precarious production, one constantly threatened, unable to grow, and lacking capital, has a fatal tendency to retire within itself, and does not willingly risk going beyond the country's frontiers.

The results obtained in the various countries which for twenty years have made a point of defending their national production have, indeed, been of a nature to strike French minds; they would suffice to explain the irresistible movement which so urgently demands the denunciation of our commercial treaties and the revision of our economic system in the direction of increasing the protection of the nation's labor.

That which has been done by other peoples compels us, indeed, to adopt measures at home, if we do not wish to be the only ones to suffer the consequences of their tariff policy. The inevitable result of the high duties behind which they entrench themselves is to throw back upon ourselves the entire surplus of production which seeks a market the world over and which formerly found assured outlets. If we look over the table of our importations of the last fifteen years we find them perceptibly increasing in proportion as the principal countries of Europe raise their tariff barriers. If we do not give heed to this, we shall end by becoming the drain of the whole of Europe. Is it right, is it wise, to persist in keeping our doors open when all others are proceeding to close theirs?

This reflux movement is encouraged and facilitated by some of our nearest competitors by the intentional lowering of the freight rates applied to the principal products directed towards our frontiers. In those countries the transportation industry is not regarded as an ordinary one, free, independent in its activities, with a right to seek its profits wherever it may find them. It is dependent upon production, and is considered primarily as an indirect means of lowering the general expenses of domestic labor and of offsetting the duties of the neighboring states. This constitutes a premium of singular efficacy upon exportation and we must in justice admit that certain of our competitors understand how to handle it with wonderful skill.

Upon all these points your Commission has been happy to find itself in agreement with the Government, which in its statement of the motives of the law submitted to us, has so conscientiously analyzed the economic evolution which is taking place everywhere to-day, and set forth so forcibly our need of adopting measures of preservation for the defense of our market.

## Burdens which Weigh upon French Production

To these general reasons drawn from the economic movements of the world, which would suffice to justify the revision of the duties of 1860, there must be added another which has arisen since that period, one peculiar to France, and upon which one cannot insist too strongly; for it is perhaps that which weighs most heavily upon

our situation. We refer to the increase of financial burdens of every kind, which are a consequence of the fatal war of 1870. No other country is laboring under burdens so heavy, and it really requires the extraordinary powers of labor and of frugality of the French race to keep it from succumbing under such a load. If we only consider the per capita charge which interest on the public debt places on the inhabitants of the principal countries, we find that it is only 4 francs for the United States; for Germany 7.50 francs; for Russia 10 francs; for England 16.25 francs; while for France it is 33.75 francs.

The annual general burden is no less heavy; if we confine ourselves to the lowest figures, the least debatable ones, we still arrive at the conclusion that our budget of general expenses, which is three and a half billions, imposes upon every Frenchman a yearly burden of 92 francs (certainly more than 100 francs if one includes the local debts), while for Germany the burden is only 67 francs, for Italy 60 francs, for Austria 54 francs, for the United States 50 francs, and for Belgium 41 francs.

The Hon. M. Pelletan, who has made such a conscientious and profound study of our financial situation, effects reductions in our budget which sensibly reduce its amount; but the divergence steadily remains about the same, to the detriment of France. According to him, the sum paid by a Frenchman in general taxes is only 66 francs yearly; but M. Pelletan calculates that that burden is 49.50 for the Englishman and that it varies for the other countries from 25 to 45 francs.

At all events, the expenditures for the war budget alone represent for the French an annual impost far greater than that of any other country. To the pecuniary tax it would be fair to add the burden, onerous in quite another way to French production, of obligatory universal military service. In the opinion of the manufacturers it is through that circumstance that we suffer the most in the state of armed peace which is crushing the principal nations of Europe. They are unanimous in declaring that military service, by taking our workmen in mid-career and at an age when their manual skill is most remunerative, inflicts an injury, often irreparable, upon their vocational instruction. It is thus that they account for the differences of accomplishment which our English or Belgian competitors

attain in certain callings. Assuredly our workmen are inferior to none in intelligence and industry, and they should not be held responsible for the inevitable consequences occasioned by the compulsory interruption of their work. This is an additional reason for taking account of them in establishing our customs duties.

## Wages

And now it is easy to calculate for every branch of production the increase of general expenses consequent upon our financial situation, and the special disadvantage which it inflicts upon our producers as compared to their foreign competitors. As was inevitable, it is principally in wages that it has made itself felt; nearly all had to be raised since 1860, the rise in certain industries mounting as high as 50 per cent and even higher. And as a general thing it is wages that cause the principal divergence in the net cost of like French and foreign products. You will find this demonstrated on every page of the special reports relating to the different industries. This cause of inferiority weighs upon us all the more heavily since the products in which we excel are as a general thing those in which manual labor is a predominant factor.

What we have to defend in our customs duties, therefore, is manual labor, that is to say, the labor and the bread of our workmen. Upon the aggregate of general expenses our manufacturers have made the maximum possible reduction; there remains only manual labor to be squeezed, and unfortunately it is upon this that the inadequacy of our new economic régime would fall with fatal effect.

It cannot enter any one's mind to reduce the wages of our workmen, which, in certain branches of production, are manifestly insufficient. We ought, on the contrary, to strive with all our might to raise them, and there is only one way to do it: to maintain the prices of our products at a sufficiently remunerative rate by preventing their excessive reduction through foreign competition. Thus the tariff question is connected with the social problem itself in its acutest form.

Let us take heed, moreover, that if we do not see our way to paying our workmen well, others will succeed in taking them from us,

and they are doing so already. Everybody knows that it is by the employment of the best of our workmen and foremen that Russia, America, Germany, China itself, manufacture to-day choice and tasteful articles of which we have hitherto had the monopoly. If this movement should become a little more general, we ask ourselves uneasily what may become before long of our artistic supremacy.

And finally, must we not take into account, if we wish to cover the question in all its aspects, the numerous laws submitted to-day to the consideration of the Parliament, having for their object the amelioration of the condition of our workmen; the law of responsibility for accidents, of pensions, and finally, so important, the one concerning the hours of labor, which in reducing the working day for women and children from twelve to ten hours inevitably leads to the same reduction for men? It is quite evident that all these laws if passed will constitute a heavy burden on production. Many manufacturers have stated to your Commission that for the majority of the industries a reduction of two hours of work, with wages unaltered, represented in net cost an increase of more than 20 per cent, and they have requested that the tariff rates which we propose to you should be raised accordingly.

It is evidently a necessity which will be forced upon us unless our foreign competitors should decide to follow our example and reduce their hours of labor to the same extent as ourselves. Barring that, the reduction of working hours would benefit only our rivals, to the great detriment of our workers.

We believe we have said enough to establish the imperative necessity of the revision of our customs duties by allowing a just compensation for French as compared with foreign production. We do not by any means propose for this purpose to return to the régime that preceded 1860, advantageous as it may have been to our country; times have advanced since then, the conditions of production have been transformed, many of our industries have taken a new direction, and to overthrow their processes from top to bottom would be fraught with danger. Nobody, for that matter, either in agriculture or manufactures, demands such an extreme; there is no longer any question to-day of prohibition, or even of an immoderate protection. The French producer does not demand any privileges, he demands but one thing: justice.

He claims, as it is his right to do, that account should at last be taken of the excessive burdens which weigh upon his work, and of the causes of inferiority whose suppression does not depend upon him. In fixing the customs duties, he demands that the public authorities should estimate exactly the divergence which differentiates him from his foreign competitor, and that the figure set down in the tariff should represent that divergence.

Your Commission is of the opinion that such a claim is absolutely legitimate, and it is upon that basis that it has tried to found the very difficult work which you confided to it. It has sought for every branch of products, whether agricultural or manufacturing, the exact duty which seemed to it indispensable in order to insure their existence and free development. It, like the Government, considers that to invest our tariff rates with a real value, and to give French production courage and confidence, the first essential is to fix the minimum of the duty which will be assured to it, no matter what happens—below which it will not in future be permitted to sink. It is upon this fundamental principle that the economics of our tariff minimum rests—it is this which determines its peculiar character.

Upon this first point, we believe we have given our producers one of the greatest satisfactions, one of the most valuable guarantees, to which they could aspire.

There is another of no less importance, and which has since 1860 been the object of an incessant claim upon public attention.

### Equality for Agriculture and Manufactures

At that period people were not intent upon apportioning in the tariff to each of our manufactures and to our agriculture the just share which was their due in the protection of the nation's labor. In order to favor the exporting manufactures other great and important manufactures were sacrificed which had a right to live and would certainly have developed if they had not been delivered over directly to a crushing competition. It is no mystery to any one to-day that the cotton, flax, and carded-wool manufactures, and many others too numerous to mention, have been a ransom for the others. It is in virtue of the same principle that agriculture was in like manner sacrificed to manufactures by putting its principal products on the absolutely free list.

It was our duty to repair these acts of gross injustice. Following a point of view different from that of the negotiators of 1860, we believed that we had no right to choose between the various branches of labor, to prefer one to another, but that we owed them all equality of treatment.

The preceding Chambers had already started on this road of reparation by abolishing for certain products the crying inequality of which agriculture had for so long a time been a victim. They ended by recognizing that all those products which are the fruit of labor have a right to equal protection, and that of all products it is those of the soil, if there should be a choice, which ought to be sacrificed the least, because they are at once the most necessary and yield the most to the country. For they borrow nothing from abroad and are pure gain for the public wealth.

We could not, therefore, hesitate to complete the work of the preceding legislatures by granting our agricultural production a thoroughgoing and scientific tariff. We were all the more obliged to do this since, besides the causes of inferiority which we have just analyzed, and which apply to agriculture as well as to manufactures, there are those which particularly affect our agriculture and which are daily growing more menacing to its future.

These causes, which have brought on the agricultural crisis which is not yet over, are well known to-day, and no one thinks any longer of denying them.

There is in the first place the considerable agricultural development of the nations of Central and Western Europe, such as Germany, Austria-Hungary, Russia, Rumania, whose agricultural products flow into our markets in ever increasing volume; not to speak of Italy and Spain, whose competition has become so formidable for our wines. But the chief of these causes is the entrance into line in the markets of Europe of young peoples favored by nature and by their financial situation with exceptional advantages: a virgin soil, costing next to nothing; for certain nations labor incredibly cheap; the absence of military imposts and the insignificance of the fiscal taxes. In 1860 those peoples were still dormant, and it is this circumstance that constitutes an excuse for the statesmen who disdained to take precautions to insure the future of our agricultural production. America was still so far off! As for India and

Australia, who would have given them a moment's thought? One hardly thought even of Russia.

But lo and behold, all of a sudden the development of the means of transportation and communication, the rapid reduction of freight rates, brought those great markets in a few years to our doors, to such an extent that it was found that the grains of America and India, landed at Havre and Marseilles, could be had at lower rates than those from our chief centers of production. After grain, it is cattle, even cattle on the hoof, which, thanks to ingenious improvements in the construction of ships, tend to be substituted for French cattle; for meats, the facilities of importation are still greater.

The inevitable consequence of this movement has been to upset all the conditions of agricultural production. The Government recognizes this very fully when it declares in its statement of reasons "that it tends more and more to make the world a single immense market in which all the parts are jointly responsible, and feel directly the repercussion of the agricultural and industrial crises which occur in any one of them."

* * * * * * * * * * *

Such, in their totality, are the general views which have actuated your Commission; its duty was, thus, clearly marked out: it was to recover in its entirety our agricultural production, and, doing what should have been done in 1860 and in 1881, to give it the same place in our customs duties that is given to the other branches of production.

But if it was easy to lay down the rule of equality and justice, it should be recognized that it was not so easy to apply it. Agriculture and manufactures are not separated by an impassable wall; there are points of contact between them where their interests seem to run into each other and yet cannot be blended and served at the same time. With the best will in the world it is impossible, on those special points, to give to them equal treatment: a choice must perforce be made and a preference given to the dominant interest.

It should in justice be recognized that your Commission has made the most serious and most sincere efforts with the object of conciliating them in the greatest possible degree. Its reporter, who has not always agreed with it, is obliged to declare that it has never lost

sight of the rights of any of the great interests of the country and that it has faithfully sought every means of giving them satisfaction.

How it was led to maintain the free entry of wool, of raw hides, of flax and silk, despite its desire to grant agriculture the same treatment as manufactures, is a thing which it is important to state very precisely. For, of all the questions which it has had to solve, this has certainly been the most delicate, the most difficult, the one which has agitated it the most and caused it the greatest distress.

## Duties on Raw Materials

Let us remark at the outset that the majority of the members did not for a moment pause at a consideration formerly so potent, that the agricultural products in question were raw materials and should as such be exempt from all customs imposts. That contention is renounced to-day by the very school which formerly was its greatest advocate. It is recognized now that there is no such thing as raw material in the absolute sense of the word, that everything is raw material if one has in mind the successive transformations which any product whatever may undergo, that nothing is raw material when one considers that all products which are the fruit of labor are equal in the eye of the tariff. A pound of wool produced by the husbandman, a kilogram of cocoons produced by the sericulturist, are the results of a human labor as respectable as that of the spinner or weaver. If one were to take that point of view exclusively, they should all receive the benefit of the same tariff protection.

The best proof that your Commission has not been guided by the old doctrine of raw materials is that it has not hesitated to lay duties on oleaginous seeds and on hemp, although these form the raw materials of a number of great industries.

If it has not done so in the case of wool, hides, and silk, it is because, looking at the matter always from the point of view of the development of the nation's labor, which was its objective and its chief guiding principle, it was afraid it might diminish instead of increase it. It found itself confronted by manufactures whose exports represent almost a billion francs,[1] and which redound to the

[1] We must call attention to the fact that this figure represents the value of the products exported, and by no means that of the French production. To estimate the latter, we should have to deduct from the amount of the

honor of France. The high duties which they encounter to-day in all the markets of the world render their struggle daily more difficult, and it is obvious that if the price of their raw materials were raised by the imposition of a duty they would be seriously compromised.

No member of the Commission would have consented to it, and the question was not even brought up for consideration. The most ardent advocates of the duties have always asserted that they demanded them only under the express provision that they would be returned, on exportation of the products, in the form of a drawback; there is no doubt that if that condition could have been met, those duties would have been voted by a large majority.

Upon such a purely technical question it was not the province of your Commission to be the sole ones to pass an opinion, and to impose their will. It was absolutely necessary to consult the Government and make sure of its coöperation, since it is the Government which is charged in practice with applying and carrying out a system of restitution, of whatever nature.

The declarations of the Government upon this capital point have been most explicit. It rejected in the most positive manner the two schemes hitherto in use under the name of temporary admission or of drawback; temporary admission[1] as a means at once inadequate and dangerous for our domestic market itself; the drawback as ruinous to the Treasury and impossible in practice.

It has especially insisted upon taking account of the industrial transformation which has taken place in the textile industries in the last twenty years, and which tends more and more to substitute mixed for pure fabrics. The difficulty of ascertaining the weight, quality, proportion, of the various textiles appears to it insurmountable. Their verification would, in its estimation, present such difficulties, be so uncertain, would entail such delays, that the export trade would be paralyzed.

I will not go so far as to say that these objections, presented with great force by the Minister of Commerce, convinced all the members

exportations the sum total of foreign raw materials which entered into them and which, for wool and silk alone, represent several hundred million francs.

[1] *Admission temporaire,* an arrangement whereby materials were admitted free of duty if to be worked up in some way and reëxported within a specified period. (Ed.)

of the majority of your Commission. Many of them persist in thinking that a system which was in operation until 1860 is by no means an impossible one; if in practice it involved some inevitable inconveniences, it does not by any means seem to them impossible to have these corrected. They point out, finally, that if manufacturing has been transformed, if the mixture of textiles has come into general use, science, too, has made advances, which enable it to recognize rapidly and surely the composition of a product; chemistry has solved problems far more difficult. It solves them, for that matter, every day in carrying out the regulation of temporary admission itself.

So far as the silk industry is concerned, for example, which enjoys the privilege of temporary admission, is it not demonstrated that it can work that system? How can one understand that the cotton threads which enter into the composition of a fabric mixed with silk can be recognized while the silk threads cannot?

Excellent as these reasons may be, they did not suffice to win over the majority of your Commission. It seemed to it too daring a thing to launch out alone, and without the support of the Government, into an experiment which the latter condemned in advance; it recoiled before a responsibility which might entail such serious consequences. In order to succeed in a matter of this nature, it does not suffice to have the forced acquiescence of the Government; what is necessary is its convinced concurrence; success can be attained only at that price.

Such is the chief reason which dictated the vote of your Commission upon this important question. It could not think of compromising great and powerful industries, such as the woolen, leather, and silk industries. It could do so all the less since in striking them it ran the risk of striking agriculture itself.

We must not forget that the exported textiles contain a definite proportion of raw materials of French origin; French wool and silk serve as a vehicle for foreign wool and silk. Every diminution in our exports would, therefore, result in a diminution of the use of French agricultural products themselves. Agriculturists, for that matter, are aware that those engaged in manufacturing are their best customers, and that the consuming capacity of the latter increases with the prosperity of our manufactures.

In conclusion, there is a final reason which mitigated the regret felt by the defenders of agriculture in being unable to give direct protection to wool and hides; it is the possibility offered by a revision of our tariff of protecting them indirectly by raising the duties upon sheep and cattle, and above all upon meats.

Many noted agriculturists go so far as to believe that these duties are more effective than the duties on wool and hides, because their reaction upon the value of the product is a sure thing. They point out that a duty on wool and hides would not necessarily augment by its amount the price of our wool and hides, because the foreign wool and hides imported into our country are of a different nature from the French wool and hides and are very often applied to different uses, while live-stock has a value and use that is the same in all countries.

We could not, unfortunately, offer a like consolation to our flax growers and our sericulturists, and it is this circumstance that your Commission so deeply regrets. It would certainly have placed a duty on foreign flax if it had not been impossible for it to do so on account of the free admission of wool. In order to put a duty on flax it would have been absolutely necessary to put one on cotton, whose products compete with those of flax in our domestic market; and it was impossible to put a duty on cotton and flax without giving woolen textiles a privileged position which would have constituted a clear injustice.

### Bounties on the Cultivation of Flax and on Sericulture

Several members of the Commission, distressed at the thought of the compulsory abandonment of the great flax industry, which was formerly so flourishing, and so profitable to our agriculture, asked themselves whether there was not, as in the case of hides and wool, an indirect means of coming to its assistance. They thought that by encouraging our cultivators by premiums on the production of a flax of medium quality and abundant yield, they could be put into a position to recover a portion of our market and to meet during this transformation the efforts of foreign competition.

With this in view they addressed a petition, which was approved by the Commission, to the Government asking that it should seek

means of realizing the object. This does not by any means seem impossible if we judge by some experiments of the same kind. For some years a Committee on Flax in the Department of the North has been distributing annual prizes to the flax growers, which have already yielded excellent results. Our neighbors across the Channel have long given us an example of the same sort; it is by bounties that the English Government has supported for fifty years in Ireland the production of flax, which to-day has attained a perfection so well known.

The interposition of the state would be all the more opportune since in the tariff on linen fabrics and yarn we have raised the duties on the fine yarns and fabrics, which had been wholly sacrificed, and since the use of the fine grades of flax, so well adapted to French soil, cannot fail to be extended.

This order of ideas is not calculated to displease the Government, for it has itself pursued the same direction in proposing a bill intended to secure bounties for sericulture to take the place of the protective duty which was denied it. This bill having been sent to the Budget Committee, your Commission on duties was not called upon to examine it directly. No one can tell what it would have done with it if it had had to pronounce upon it, or, consequently, what transformations it might have caused it to undergo.

The problem is a subsidiary one which remains open to discussion and which will assuredly give rise to a searching debate in the Chamber. It is all the more important since it may henceforth be regarded as certain that many convinced advocates of sericulture will without hesitation grant it the duties which it demands, if no other efficacious means are found to give it satisfaction.[1]

## Agricultural Duties

We have sought to present as accurately as possible the chief reasons which prompted the resolutions of your Commission upon one of the most difficult questions it had to solve in agricultural matters. That question settled, it easily agreed upon all the others, and it has allowed to our agricultural production as a whole the

[1] The tariff of 1892 as finally passed did include bounties on the production of raw silk. (Ed.)

just protection to which it has been entitled for a long time, and which the treaties alone have prevented it during these last years from obtaining. Duties are raised on a great number of agricultural products, such as live-stock, and particularly meats, cheese, wines, beer, fish, oils, hops, etc., etc.

New duties are imposed on a great number of products which are allowed free admission by our conventional tariff regulations. Let us mention butter, oleomargarine, eggs, milk, poultry, lard, honey, wax, fodder, fresh and dried vegetables, grapes and apples, hemp, oleaginous grains, brans, and, finally, wood, that product so important for our country and which is such a valuable source of income for the budget of the state.

If the Parliament ratifies these propositions, which we confidently hope, agricultural France will soon feel their beneficial effects; we shall soon see the revival and development of a great number of agricultural activities which have been discouraged by foreign competition and which ask only the possibility of living.

However, some of the agricultural societies do not feel satisfied, and urge that more could have been done; they complain, above all, that manufactured products have been granted an amount of protection greater than that accorded to those of agriculture. The agricultural protection, they say, averages only from 10 to 25 per cent of the value of the articles, while the protection of manufactures ranges from 25 to 60 per cent.

To these objections and criticisms we shall reply by pointing out, firstly, that if one wishes to judge of an undertaking so considerable as that of framing an agricultural tariff applicable to the whole of French agriculture it is not sufficient to single out some isolated points and complain of not having obtained everything.

It is necessary to consider what has been obtained, the whole scheme of the duties enacted, and compare them with the importance of the branches of labor which are to be protected; only thus can we understand their operation and estimate their beneficial effect upon the national production.

Now, if one takes the figures of the most exacting advocates of agriculture, who reckon the annual agricultural production at 25 billion francs, and analyzes these figures by applying to each article the duties voted by the Commission, one finds that more than

21 billions' worth of agricultural products are henceforth going to be protected. And, moreover, from the four billions remaining we should subtract nearly two billions' worth upon which agriculture does not demand any protection (straw, manure, tobacco, etc.).

Finally, it should be observed that if not all the agricultural products are protected—if some, to the regret of your Commission, had to be excepted—it is no less true that after the vote upon our tariffs there will not be a single agricultural industry in France that will not have a share of protection; for there is not a single one which, through the inevitable variety of its productions, will not be in line to profit by it.

As for the existing difference between the proportion of duties, according as they are applied to agriculture or to manufactures, this is an easy thing to explain and to justify. It is a consequence of the nature of things and does not impair the rights of anyone. If the taxes imposed upon agricultural products seem in general lower than those that protect certain manufactured ones, it is because they are levied upon a product that is simple and has not as yet undergone any transformation; thus it gets the entire benefit of the duty. The duties on wheat, corn, wood, hemp, oil, live-stock, oleaginous seeds, go entirely to agricultural production. But when these products are transformed by manufacture, it is absolutely necessary that the duty granted should be higher, lest it get nothing; when the manufacturer transforms wheat or corn into starch and farina, when he transforms wood into furniture, oleaginous seeds into oil, he begins by paying, on the wheat, the corn, the oleaginous seeds that he buys, the duties granted to agriculture, and it is the part of justice that that should be taken into account. The duty that protects him represents only the difference which constitutes his special protection.

As to the total duty, great as it may be, it protects agriculture as much as manufactures, since, if manufacturing industry were crushed by foreign competition, it would be unable to buy French agricultural products. When the starch and farina industries prove unsuccessful, it is wheat and potatoes that suffer; when foreign sugar invaded our market, the culture of the beet languished.

What we say about agriculture in its relation to manufactures is equally applicable to the various manufacturing industries when compared with each other. That which is concerned with the earliest

stages of production is as a general thing very moderately protected; those which come last in the series of transformations seem, on the contrary, to enjoy exorbitant duties; but that is only apparently true.

In the textile industries, for example, spinning gets an average protection of only 12 per cent for the numbers most used; but when we pass from the thread to the unbleached cloth, from the unbleached to the dyed or printed cloth, from the dyed or printed cloth to the finished garment, when each one of these processes of manufactures has been allowed its due share, it is obvious that the last duty, which embraces all the others, is necessarily very high; but it will be seen by what we have just said that it would be a serious error to believe that it benefits the industry concerned exclusively.

Observation is of prime importance in the matter of the tariff; it replies in advance to the objection so often repeated, and so inaccurate, that the duties voted by your Commission are exorbitant and prohibitive.

Your Commission may, therefore, justly claim that in its fixing of the duties it applied the same principles to agriculture as to manufactures, and that it held the balance even between all French workers. Upon that point there never has been a shadow of difference among its members; they were so thoroughly convinced of the intimate solidarity which unites the two great branches of our national production that it never for a single moment entered their minds to establish a difference, or even a shade of difference, between the one and the other.

## Duties on Manufactures

After the agricultural tariff it remains to examine the lines of our tariff on manufactures and to acquaint you with the general ideas which led to their revision. In the case of agriculture, it was the first time that its situation was examined throughout from the point of view of customs protection, and your Commission had, in a way, everything to do. As regards manufactures, the situation was very different; since 1860 the duties which govern them have been the subject of ceaseless discussion, and the truth has come out on every hand. It is recognized now that the fundamental evil of the treaties

of 1860 was the unequal treatment of the different industries; certain ones have been adequately protected, some even liberally so; others have been wholly sacrificed. In the first rank of the latter we must place the cotton industry, the linen industry, that of carded wool.

It was the chief care of your Commission to give these great industries their due. It is upon them that the duties have been increased the most; but it is evident that these increases are justified.

Some of these increases are merely a correction of purely material errors in the assessment and calculation of the duties. Thus the tariff on embroideries was fixed in such a way that the duty on embroidered cloth was in many cases lower than that on the plain cloth upon which the embroidery was applied, so that the importer needed only to dab a bit of embroidery on the plain cloth in order to escape the payment of duty on the embroidery and a part of the duty on the cloth. In the case of oilcloths and rubber goods we have discovered like anomalies.

But there is another point in our work of revision to which it is important to call attention, because it is perhaps the one which has exacted the most considerable labor on the part of your Commission. Since 1860, and particularly since 1881, a great transformation, and one which is accentuated every day, has taken place in the course and development of the various industries. The advances of science are constantly modifying the processes of manufacture, substituting one product for another and creating new industries of whose existence there was no indication a few years ago. It is to this new state of things that it was requisite to adapt our new tariff; hence the necessity of new duties, the alteration of old ones, and, above all, a complete change of classification.

As a consequence our tariff will necessarily appear more complicated than the old one; but it was an inevitable complication. You will recognize in it a proof of the conscientious care which your Commission has brought to bear upon its work.

The change of classifications has in many instances resulted in raising certain duties; but it should in justice be pointed out that others have been lowered, and it is the total amount, the average of the duties, that we must take into consideration, if we wish to obtain an exact estimate of the actual result of our new tariffs.

You know now in what spirit and by what processes your Commission decided to settle upon the minimum tariff requisite for the protection of our agriculture and our manufactures. We have thus affirmed the intimate solidarity of all the branches of our national production, and we hope that the Chamber will be as deeply impressed with it as ourselves; the success of the work which we are undertaking depends upon it. The feeling of that solidarity is very vivid to-day in the working masses. Their sound sense and their spirit of justice are repelled by inconsistencies and selfish calculations. They do not admit that one should be protectionist for one's self and free trader for others, and fail entirely to understand the language of the representatives of certain Chambers of Commerce who demand high duties for certain industries, and yet constantly insist that the economic policy of France is being turned into a deplorable course. If one wishes to assume such an arrogant attitude one should at least be logical and carry out one's theory to its full extent.

## Application of the Double Tariff

There remains still for us to explain to you the resolutions of your Commission regarding the application of our minimum tariffs to foreign countries; we come thus to the very important question of the actual working of our new economic system.

The Government proposed to us that we attack the problem by the adoption of a double tariff; a minimum tariff and a higher general tariff which would be based upon a variable augmentation of the figures of the minimum tariff. The general tariff would be our common tariff, applicable in principle to everybody. As for the minimum tariff, it would constitute a tariff of favor which would be conceded to the nations which would accord to us corresponding advantages, and particularly to those which would allow us to get the benefit in their markets of the same advantages as our foreign competitors—that is to say, those that would treat us on the level of the most favored nation.[1]

[1] We do not consider in the series of possible combinations that of a tariff intermediate between the general and the minimum tariff, because it seems to belong to the domain of pure theory. The Government itself has recognized this; it has declared to us that while reserving to itself the right to resort, if

A question of great importance was that of determining in what shape, for what length of time, and subject to what conditions the minimum tariff could be granted to any country. Was it to be by means of a genuine treaty; that is, by reciprocal agreements binding the two parties and establishing in an irrevocable manner, pending their duration, the rates of that tariff? Should it not, on the contrary, be granted as a simple reduction of the general tariff, but a reduction which we should be empowered to modify at will, if the necessity for such action were demonstrated to us?

Upon this capital point the Government expressed the desire to reserve to itself its liberty of action and decision. It declared to us that in its opinion the time had not yet come to say that it absolutely renounced the principle of the treaties. It expressed itself formally only upon one point; and that is that if treaties were ever entered into, the concessions made to foreigners should never fall below the figures of the minimum tariff. It admitted, for the rest, that it would be expedient to except from those treaties the duty on cereals and on live-stock.

It is the whole body of these declarations that we are going to pass in review, acquainting you in the case of each with the opinion of your Commission.

## Single Tariff

And, in the first place, it adopted without hesitation the principle of the double tariff, which seemed to it particularly adapted to those who are opposed to treaties. No one, it should be mentioned, suggested a single tariff applicable to the world at large without distinction. That absolute system presents, in fact, obvious disadvantages and dangers. The first of these disadvantages would be the forcing of the protective idea beyond measure, as all the nations that have adopted that system have done. When the same tariff is applied to all, that is, even to the countries which have a really prohibitive system, the natural result is a great increase of tariff rates. That is a road upon which we do not wish France to enter.

expedient, to that mode of action, it realized that it would be a difficult matter to have it accepted by any country. It is probable that all of them would either demand the minimum tariff or resign themselves to submit to the general tariff.

But the single tariff would have a defect far more serious, that of compromising the interests of our export trade, which we purpose to protect by every means in our power. The single tariff would cause us to lose the benefit of the concessions which we can expect in offering our minimum tariff, and especially the advantages which our competitors might gain in foreign markets—that is, the treatment of the most favored nation. If we exclude ourselves from the possibility of granting favors to others, what right have we to demand any from them?

It is true that the reply is made that the single tariff would not exclude measures of reprisal against nations which would be tempted to inflict a rigorous treatment upon our products, and that the menace of such reprisals sufficed to secure to certain nations which have the single tariff the tariff of the most favored nation. But is not this, by the admission of the advocates of the single tariff themselves, a condemnation of that very system?

The policy of reprisals is the most dangerous of all: it should not be resorted to except in case of the utmost extremity; one never knows where it may lead or what it may cost, and it may well be conceded to us that the method that can without reprisals accomplish the desired end and protect our export trade is incontestably superior to all others.

So our Commission espoused without hesitation the principle of the double tariff. It agrees with the Government in holding that the general tariff should constitute the common duty applicable to all, and that the minimum tariff should not be conceded to the foreigner except under certain forms and conditions.

As for the form, there are only two means of making the concession: either a law which binds only ourselves or an agreement which binds equally those with whom it is entered into. We have already practiced both systems; it is only by a law that we conceded to England, and quite recently to Greece, the benefit of our contractual tariffs. It is by special conventions that we have accorded the most-favored nation treatment to other countries, such as Austria-Hungary, Turkey, Mexico.

But besides these conventions, which embrace only a pledge of principle and of relative favor, the consequences of which may be varied by the contracting parties, there are others whose aim it is

to bind in close union the nations that sign them, by fixing for their entire duration, in an immutable fashion, the customs system of the contracting countries. These conventions are termed treaties. The distinctive character of the treaties consists in the embodiment in their text of the sum total of the tariffs concerning the entire production of the contracting nations, and in the pledge of leaving them untouched pending their entire duration.

There are, then, two possible ways of granting the minimum tariff in the form of a convention. It may be conceded as a simple treatment of favor under the general tariff, but without taking any pledge to maintain its figures indefinitely. In that case the result of the convention does not sensibly differ from that of the law. To concede our minimum tariff by a convention of that kind is only to promise to the nation to which we grant the concession our lowest tariff rate; but we owe it nothing more and we retain the power to alter and raise the actual figures of that tariff should the necessity for such action be demonstrated to us. In short, we promise only one thing; that is, never to apply our general tariff pending the duration of the convention to the nation with which we have made that agreement.

There is a second way of according our minimum tariff, and that is by incorporating it in a genuine treaty and thus fixing the figures for the entire duration of the treaty. In this system, the minimum tariff would take the place of our actual contractual tariffs, with the sole difference that it would be applied *en bloc* while our contractual tariffs have been formed by sections and by successive layers.

## System of Treaties

Confronted with these two systems, your Commission decided, by a very large majority, that if the first was considered acceptable, the second should henceforth be abandoned.[1] It was of the opinion that the interest of our country commanded it not to enter into any more treaties and to remain master of its tariff. It seemed to it

[1] It goes without saying that the Commission acted here only by way of advice and counsel, and that it in no wise intended to infringe upon the prerogative bestowed by the Constitution upon the Government of making treaties under its responsibility, conditional upon submitting them to the ratification of the Parliament.

that the economic situation of the world imposed that measure of prudence upon us more than upon others. We have for ten years been witnessing a general revolution in the conditions of production, and the respective situation of the various nations is constantly being modified with a dizzying rapidity. One that amounted to nothing yesterday is all of a sudden revealed as a formidable agricultural or industrial rival; a few years may enable it to crush all its competitors. There was a time when distance, the difficulty of communication, and the high rates of transportation were, for the majority of nations, particularly those of Europe, a bulwark more efficacious than customs duties. To-day that advantage is denied them and everything is against them. Who would dare to assert that matters will stop here and that the future holds no new surprises for us?

One must bow to the force of circumstances and recognize that to-day all the markets tend more and more to draw near to each other, and that the distance which separates them will steadily keep on diminishing.

It is, therefore, the struggle of the strongest against the weakest that is beginning, and we must prepare to sustain it without discouragement but likewise without illusion. We must be ready for everything, ready, consequently, to recast our economic system should new dangers, impossible to foresee to-day, menace our national production. We may hope that such a necessity will not make itself felt for a long time to come, but it would be most presumptuous not to take it into account.

Even should the precaution be needless, it would, in any case, have the advantage of reassuring our producers, of giving them a feeling of security for the morrow and confidence in the future. Before our producers themselves we must place our workingmen, who are the first victims of these displacements of production. If we wish to wrest them from the temptation to emigrate to the fortunate lands which are preparing to supplant us, we must protect and defend their labor. In order to do that we must attend to the means of securing those objects.

# XIII

## WAGNER: AGRARIAN STATE *VERSUS* MANUFACTURING STATE[1]

THE entire controversy, political and literary, concerning economic policy in relation to land and to foreign trade, centers essentially on the question which it has of late become customary to refer to as that of "Agrarian State *versus* Manufacturing State" —not a very happy terminology, since it is not definite and does not preclude misconceptions from the outset. In general it suggests, as we know, an economic development of the following character: A constantly increasing portion of the needs of a country for foodstuffs and raw materials is obtained more cheaply from abroad, partly from distant lands sparsely peopled and extensively cultivated; and this importation is paid for by the export of domestic industrial products. This applies particularly to breadstuffs, and also to such raw and auxiliary materials for the different industries as can be, and in the past have been, produced at home in somewhat adequate quantity and quality, and at a not prohibitive cost, in accordance with climate, soil, and the historical development of agriculture and forestry.

Fundamentally, the development from an agrarian to a manufacturing state is only a phase and continuation of the development at home from an essentially agrarian activity (where the needs of each household for manufactured products are covered by home production) to the division of labor and the system of exchange between city and country. This development, in its turn, affects, and is affected by, the transition from natural exchange to money and credit exchange. In so far as the development from an agrarian to a manufacturing state turns upon the exchange between agrarian and manufactured products, the same problems figure in

[1] Adolf Wagner (1835–1917), Agrar- und Industriestaat (1901), (pp. 23–38, 143, 152–160 of 2d edition, 1902).

world trade as did in both of the preceding developments—from natural to money exchange, and from home production to the division of labor between city and country, the so-called urban phase of economic organization. Inasmuch, then, as exchange in the development of the manufacturing states projects commerce with foreign countries into the foreground, the problem of free trade or protective tariff, which is always of only secondary importance, stands out more sharply, for it is not without its rôle in the urban phase, as between city and country; the problem of agrarian or manufacturing state becomes that of national or world economics—of the place of the economic system of the single nation in the economic system of the world.

In considering this phase of economic development the great effect produced by purely outward circumstances must not be overlooked; namely, size, geographical position and extension, and the entire constitution of things, including the accidental political boundaries of each economic domain, which is, in general, in our time, either an individual state, or a group of states combined, by customs-union or the like, into a more or less uniform economic domain. Exchange on a large scale between agrarian and manufactured products appears now as external, international, "world-economic," since it crosses the lines of state and of customs-union; again as internal, international and inter-provincial, domestic-economic, where the areas concerned belong to one and the same economic domain as above defined. Every change, great or small, in the political world-chart, every secession or accession of territory, every creation of independent territory forming a separate national and economic domain, every union of a number of hitherto independent domains, produces a corresponding change from internal to external trade, and vice versa. This change naturally involves a change in the commercial, tariff, and perhaps transportation conditions affecting the trade, and that, in its turn, may effect a change in the character and extent of the trade itself. But it is evident that the basic economic nature of that trade, that is, the exchange between agrarian and manufactured products, need not in consequence undergo any change in principle, nor a considerable change of any kind.

We can readily perceive, accordingly, what changes, for example, were wrought in the 19th century, after the close of the great period

of the wars of the French Revolution, in the political map of Europe and the world, and how other changes would take place; such, for instance, as would occur should Austria and Hungary pursue separate policies even as regards the tariff alone. Austria would at once appear more markedly as a "manufacturing state" on account of its presumably continuing, at least at first, to export manufactured goods to Hungary to some extent. The latter, on the contrary, would appear in greater measure as an "agrarian state" on account of its exportation of grain to Austria. The real condition of things, however, would not have changed at all in principle and not much perhaps in practice. For even in the present united tariff and economic domain of Austria-Hungary, Austria is primarily the "manufacturing state," Hungary the "agrarian state," not only in their relations to the foreign commerce of their joint domain, but in those of the commerce between the two divisions of the Empire. Hungary's lately diminished foreign export of agricultural products, especially of grain, notably to Germany, has hitherto been counterbalanced by its increased export to Austria.

Even within the limits of one economic domain, therefore, especially of one of large extent, conflicting agrarian and manufacturing interests easily arise between different agrarian sections and between different manufacturing sections. In the manufacturing regions, agriculture suffers from the competition of those in the wholly agricultural sections, where, for instance, grain is raised at less cost and, under favorable conditions of transport, finds its way to the manufacturing regions. The less developed industries of one section of a country suffer from the competition of the goods of another section more highly developed industrially. The point of view of self-interest, for example, of the farmers in a manufacturing section in regard to inland transport-rates is likely to coincide with that in regard to transport-rates in foreign commerce and duties upon foreign agricultural products. And likewise the less developed industries of one section of a country may have greater need of protection against the competition of the products of highly developed industries of another home section than against the competition of foreign industry. Examples of this are plentiful. Western and Southwestern German agriculture protested at once against the graduated rates of the Prussian railroads, just though they were

from the point of view of railway policy, because they increased the competition of East-German grain. West-German grain culture might profit from an internal protective line directed against East-German grain. The infant industries of East Germany would be more effectively favored in their development by such inland protection than by many, or perhaps all, other measures. Similar conditions obtain between Hungary and Austria regarding the question of independent tariff systems; in other words, the reëstablishment of a tariff boundary between the two divisions of the Empire. In Russia the development of manufactures suffers from the competition of the more highly developed industry of Russian Poland, which is evolving into a sort of manufacturing domain within the Russian Empire. In the United States, likewise, the cultivation of grain in the New England States bordering on the Atlantic has been thrust farther and farther back, nay, been crowded out, by the competition of Western grain produced at lower cost and transported at the lowest possible rates. It is only the fortunate circumstance that animal and vegetable products not so well adapted to transportation can be disposed of profitably in the near-by great commercial and industrial towns of the Atlantic Coast States that still makes agriculture in that section remunerative.

Within the limits of a homogeneous economic and political system the conflicting interests indicated above do not, indeed, stand out so sharply, and appear more harmoniously adjusted in the interest of the region and its inhabitants. But even here they do undoubtedly exist. We need only to suppose that the regions with such conflicting interests were to separate as political and economic entities; for example, Hungary from Austria, Poland from Russia, the Atlantic Coast States from the Western grain regions in the United States, etc.; at once those conflicting interests would stand out in sharp outline, become subjects of national concern, and in all probability give rise to commercial and tariff measures corresponding to their character.

From the foregoing considerations it appears that the problem of Agrarian State *versus* Manufacturing State is, in one respect, and in accordance with the customary view, closely connected, in theory and practice, with the problem of national economics *versus* world economics—the determination of the place of the specific economic system of an individual nation, whether chiefly

agrarian or chiefly manufacturing, in the general economic system of the world. But the first problem, with its inherently conflicting interests, is by no means completely included in the second. It is latent also in the problem of the national or inter-provincial economic organization of any considerable economic and national domain. Only, in a really homogeneous national entity it will not so easily prove a destructive element, though it may be disturbing enough through the opposition between agricultural and manufacturing regions where questions of domestic and foreign policy, particularly those regarding trade, commerce, customs, and taxes are concerned (German East and West, North and South, French manufacturing and wine-producing regions). But where also other antagonisms exist—national, religious, or political—as is the case in Austria-Hungary, in federal states like the North American Union or the German Empire, the conflicting interests inherent in the question of Agrarian *versus* Manufacturing State may easily assume very dangerous proportions and give rise to serious consequences.

It will be well to take this into account in considering such a plan, for example, as that of an economic union of Central Europe, or perhaps of all Europe (leaving out only Russia, and, if need be, the British Isles), however constituted: a plan which, for that matter, decidedly appeals to me, since its realization strikes me, as it does many others, as an eventual necessity, almost as a vital issue for "cultural Europe" ("Kultureuropa"). I would not, therefore, question the eventual realization of such a scheme. But precisely in such an "economic union"—I intentionally do not use the term "customs-union"—the conflicting interests, for instance, of French, German, Italian agriculture, at least in the essentially agricultural sections of those countries, as opposed to such sections of Hungary, Galicia, Rumania, etc., stand out in bold relief. The like would hold in regard to the conflicting interests of the highly developed industrial regions of that complex of nations. It may be that for the realization of such schemes, and for the permanent maintenance of such an economic union, those economic factors offer difficulties quite as great as those presented by the financial, or even by the political, elements of the case.

In what follows we shall essentially deal only with the question of Agrarian *versus* Manufacturing State as presented by independent

national and economic domains in their world-trade relations. But it will be well to bear in mind the foregoing considerations.

The effective factors in the entire historical movement, from the disruption of the old unity of natural home economics to the modern coördination of national economics with world economics and to the ever more enormous development of the latter, are chiefly two. But in this connection I do not deny the frequently important coöperation of other elements—notably that of legal systems, personal status (serfdom, freedom), private and public administrative law (relating to land, the trades, commerce); furthermore, that of manners, morals, religion, indeed of *Kultur* as a whole. These matters, however, I shall not further enter into here. The two factors are: first, increasing population, as it is shown by birth-statistics; second, technological development—especially in the so-called industrial processes and in communication and transportation, but also in extractive industry, particularly agriculture.

In the 19th century, especially since the close of the great wars of the French Revolution, the factor of increasing population has unquestionably been of singular importance, greater, perhaps, than in any other period of history of like duration, that is, a period of from two to three generations. It was, of course, in its turn, strongly affected by the second factor, technological progress, based upon natural science, not only in manufactures but also in agriculture and in communication and transportation. The technology of steam is but one side, even though hitherto the most important one, of this progress. Without this new resource, which has increased the supply of food and other necessaries, a considerable portion of the people now living would never have come into existence. That is not too much to say. Within the boundaries of the present German Empire the population in 1816 was but 24,830,000; at the close of 1900, it was 56,360,000, in spite of a German emigration (chiefly overseas) estimated at more than six millions since 1820. Accordingly, the density of population in these 84 years has been more than doubled; it amounts now, 1900, to 104.2 per square kilometer, nearly comes up to that of Italy (113 in 1901), is almost four-fifths that of Great Britain and Ireland (132 in 1901; that of England and Wales alone is 215), and exceeds the almost stationary density of France (72 in 1901) by a half. The comparison of great domains like that of

Germany with small ones of still greater density, like Belgium or Holland, is, it may be added, inadmissible for our problem. The latter domains, even though politically independent, are, nevertheless, in part only the highly developed industrial sections of the greater geographical commercial region of Northwestern Germany and Northeastern France.

In this great increase of native population, and the correlated marked development of our country from agrarian to manufacturing state, there is, to be sure, something great, significant, and gratifying.

But it has its dubious side as well. And this is either overlooked, or palliated, or denied *in toto*, in the prevailing optimistic view of the glorifiers of that development, and in the view of those who advocate a general economic policy and an agrarian and commercial policy which would promote in ever increasing measure our evolution into a manufacturing state.

And here is where my standpoint, as well as that of others, deviates. We do not share that optimism. Not that we are "Agrarians," "Reactionaries," which we have so often been reproached with being, but because we believe that this evolution into a manufacturing state—not that it is altogether wrong—is in its newest phase too precipitately, too immoderately, carried out; that its reaction upon national life in general is in many ways dubious; that its solidity, its continuance, moreover its advance in the direction and with the rapidity that it has recently shown cannot be permanently assured. We do not deny, however, that economic developments such as those which have recently taken place in Germany are based upon profound, inherent causes; it may even be said that in a certain respect they bear the character of "natural phenomena," as it were. But, on the other hand, they are by no means as wholly removed from human will and the influence of purposeful human action, and in particular legislative and administrative measures, as a recent view—of which traces are to be found even in Brentano—assumes: a view which represents a reversion to the formerly prevailing conception of economics as a purely natural process.

Nor do we behold in the ever swifter increase of the native population; in the ever greater shifting of rural and urban populations, in a direction favorable to the latter; in the building up of more and more great cities, with larger and larger population; in the

crowding together of agglomerations of people in comparatively small industrial and mining regions; in the absolute stationariness —at best—of agriculture, and its great relative decline; in the great increase, absolute and relative, of the population engaged in industrial, mining, and commercial pursuits: we do not, I say, behold in all this a phenomenon as wholly favorable as do our opponents. We ask ourselves, more cautious than they, whether this evolution answers the needs of the nation in general; whether it is a sound one, one that promises to endure, one whose permanence can be assured. Those are just the things we doubt.

And likewise we perceive in this development of prevailing conditions not a thing purely natural, removed as a matter of course from conscious human volition and guidance, but a thing towards which human will, as evidenced, among other things, in legislation and administration, can and should take a certain stand: with the aim and the prospect—a prospect not to be declined as impossible, and surely not as generally harmful—of intervening successfully in such development by moderate action. Not, by any means, directly, but indirectly by appropriate regulation of economic conditions, which in its turn will react effectually upon the shifting of population.

It is this conception of things and their interrelations which determines us to advocate an economic, agrarian, and foreign-trade policy which, though it does not render impossible such foreign trade as is indispensable,—the importation of foreign and exportation of domestic products,—seeks to put it upon its old and natural foundation: where those commodities which either cannot be produced at home at all or only in altogether insufficient quantity and inferior quality (things dependent upon more or less exclusively foreign conditions of soil and climate) are of course obtained from abroad and are paid for by the export of suitable domestic products —essentially, therefore, by the products of our industries and mines; where a great, increasing, and profitable international trade in partly and wholly manufactured articles and in raw materials of various sorts and qualities, in which each country has its own special superiority, is carried on to the advantage of all concerned, and is even encouraged; but where the products, particularly the ordinary agricultural ones, but also those of forest and mine, which, owing to conditions of climate and soil, we succeed in producing permanently

or have naturalized by means of the recent developments of economic technology (beet sugar, tobacco) or can easily naturalize, and that at a reasonable cost, where, I say, these are increasingly developed at home to as high a degree as possible. And this we advocate for the justifiable and great object of making us more independent of the importation of such products from abroad, and of keeping our agriculture, which is the basis of economic activity, whether modern or ancient, on a good footing and making it capable of maintaining in profitable labor a larger number of people in the rural districts.

Moreover, we favor this particularly on account of the favorable effects upon the population in general of country life, away from the crowding of cities; the favorable effect of rural occupations as compared with the industrial, and almost all the other urban callings. And this, in its turn, reacts favorably upon the people as a whole,—truly serves the interest of the nation; the health of the people, using that term in its broadest sense, is better conserved and increasingly fortified. The broad and thoroughly sound views of G. Hansen form the best basis for this conception of things and their relation.[1]

This conception is, to be sure, opposed to that which still prevails in social economics—and was formerly the only one represented—according to which in these and similar questions the only problems concerned are those of economic values. These are indeed involved and require consideration. But they are not the only things concerned or to be considered. To attain the greatest economic success, the greatest measure of value, at the least possible cost, the smallest expenditure of labor, is the one great object aimed at in the familiar "economic principle" or fundamental maxim of economics—in national and international as well as in individual and private economy. But even in the case of the last, the pursuance of that principle is not the only right lodestar, particularly if thereby other important sides—and especially the higher sides—of the life of the individual are jeopardized, suffer, or are stunted.

[1] G. Hansen, The Three Stages of Population, "an attempt to demonstrate the causes of the rise and fall of nations," 1889. In spite of great deficiencies in the purely statistical argument, due partly to lack of material, a work of intellectual power, of which the kernel is manifestly sound.

Even for the individual, therefore, it is dangerous, and as a general thing not right, to aim only at getting a maximum of economic reward, as expressed in economic values, for a minimum of personal labor, regard being had only to the quantity of exertion without any consideration of the nature of the work, of its reaction upon other sides of the life of the "individual" concerned and upon the "others," his "fellow-creatures," his "countrymen." What throughout the ages has aroused, and still arouses, the opposition and antipathy of nations against the Jews dwelling in their midst and their predominantly one-sided mode of making a living, and likewise in the Orient excites the same sentiments against the Armenians, is precisely this ruthless pursuance of that "economic principle" in individual economic life.

In public economy, however, every kind of labor and every achievement of labor, all division of labor, and every socio-economic calling must be valued not according to its relation to the realization of that principle alone, not according to the measure in which it accomplishes that realization, but according to its general influence upon the national life as a whole. Here the pursuance of that principle cannot and must not be the only lodestar, because the economic interests which revolve about the element of economic value are not merely not the only ones, but are for the general life of the nation by far not the highest ones. The great question, "What is a man profited, if he shall gain the whole world, and lose his own soul?" should be borne in mind in the discussion of these great economic issues. Only, in that connection, we must consider not alone the religious and ethical side but all sides of human life which are affected by the economic side. The question of the kind and quantity of labor does not resolve itself into the "problem of value," in consonance with that economic principle, but is related to the general problem of occupations, and that, again, includes the additional problem: what effect has the kind and quantity of work, the vocation, upon the other aspects of the life of the individual, and, in accordance with the prevalence of those kinds and quantities and vocations among the people, upon the national life in general? Questions these which economics, if it is really to become "Social Economics," and a historical and ethical science, cannot ignore. That was the error of the "classical" political economy, and is still, in

the main,—even in Germany,—the error of the modern and more highly developed science of economics. In the discussion of the "practical problems" of commercial, agrarian, and manufacturing policy, and, in particular, of our problem of Agrarian *versus* Manufacturing State, in the manner of *Dietzel, Brentano*, and even *Schäffle*, this error is, in my judgment, striking.

It appears, among other things, in Brentano's reference to certain doctrines of Torrens and Ricardo regarding international trade. According to these, every country should aim to engage particularly in those branches of production in which its superiority, based upon natural conditions or upon historical development, is greatest. Inasmuch, then, as an international exchange of these products for other foreign ones—in which though the first country is perhaps likewise superior, it is so in a less degree—takes place, the result is an economic gain, a general benefit, for each of the countries concerned. At bottom this doctrine is, after all, only a dialectic subtlety. It contains, indeed, a grain of truth, but the quantitative element—the question to what extent such an exchange will in the future be maintained in practice—is, as is usual in that method, ignored. It is precisely here that the historical method in political economy has made good its challenge of the value of the mental gymnastics of the old school. I raised this objection as far back as my first edition. But now continuing the discussion, let me take up still another side of the question involved in that doctrine.

Assuming that a country is really permanently and decidedly superior to other countries in the production of certain, even important, articles—superior to them in greater measure than in the case of other commodities; assuming that it employs, accordingly, an ever greater part of its labor resources, its population, its capital, in the branches of production in which it particularly excels, for example in certain great branches of the textile and mining industries; that it supplies with the products indicated its home market and increasingly exclusive foreign markets; that, on the other hand, it allows its own production of other articles to decline more and more, and supplies its needs in those lines ever more exclusively from abroad. Then, to be sure, so long as production and trade maintain this character, it may be admitted that the countries concerned, and particularly the superior one, would reap an economic advantage,

inasmuch as a greater quantity of commodities is obtained with a less expenditure of labor. If we were dealing exclusively with a problem of economic value, the result would be an unalloyed advantage. So far one may agree with Torrens, Ricardo, Dietzel, Brentano.

But is the question, as an economic one, to say nothing of its social and cultural aspect, settled thereby? By no manner of means! Leaving, again, the question of the assured permanence of that condition of production and trade entirely out of account, what would be the consequence of that condition during its continuance? Evidently that the nation with its great superiority in particular branches would restrict its national activity to those few. It would perhaps on that very account attain a special skill, but at the cost of a one-sided occupation of its population, the narrowing of their views, the most one-sided physical and mental development, the absence of all the advantages of the universality and variety of national production, and of the favorable reaction of this upon the national life in general. There would then perhaps be scarcely any agriculture, except a little to supply the local market with products difficult to transport from a distance; scarcely any industries except those in which the special superiority obtains, and those branches of production necessarily closely connected with them locally. The agricultural quota of the population would sink to a minimum, the manufacturing and mercantile would rise to a maximum; but here again the industries which are excelled in would constitute the greatest part. That things would hardly develop to quite such an extreme in reality must, indeed, be admitted. But if problems of economic value were really the only things to be considered, then such an extreme development would be the proper aim, to realize which as nearly as possible every effort should be made, every obstacle removed; and furthermore a development in the direction of this extreme would be the natural consequence of a régime of perfect freedom in trade and production. The "country of superiority," then, would have, for example, little outside of coal-mining and the metal and textile industries, and accordingly only miners, metal-workers, spinners, weavers, etc. among its laboring population. Can such a development—even though, from a "purely economic" standpoint, that is, its relation to the solution of the problem of production, of value, it would be the most advantageous one—be really

looked upon as conducive to the true, the abiding interest of the nation's economy, of its civilization, of the national life as a whole? To the question, put in this form, every man of sense will answer No. But it may, it must, be put in this form, because it is precisely in the hypothetical case of such an extreme condition of things—as is always the case when one proceeds consistently—that the untenable stands out most clearly. And though even England, even its chief manufacturing and mining centers, and our chief German manufacturing districts,—those of Düsseldorf, Arnsberg, the Kingdom of Saxony,—are as yet far removed from this hypothetically assumed extreme condition, yet they are approaching that development, and already exhibit some of its deplorable attendant phenomena, in the division of labor among their inhabitants, and in England in the decline of agriculture, and especially of the cultivation of grain. *Vestigia terrent.*

But the development of production and trade that we are considering would carry in its train still other effects and accompanying phenomena, an estimate of which is requisite in order to determine one's attitude towards the whole agrarian and manufacturing problem. The development that has in fact already taken place—development for example in England, or in our manufacturing districts, which are essentially devoted to manufacturing for export—exhibits the symptoms referred to in a degree quite sufficient to furnish food for thought. The necessary intermediary in these activities is trade, whose function must become all the more important, and its position consequently all the more controlling, the more complex the form assumed by export on its mercantile side, the more distant the territories it must seek, the more seriously it would be endangered by outside competition. The spirit of trade, or rather the trader spirit, must, therefore, become ever more specialized, one-sided, ruthless; must increasingly infect the entire national spirit, and assimilate it to itself. The more completely a country concentrated its efforts, in accordance with the above-mentioned doctrine, on some few industries in which it excels, the more would this spiritual, ethical, and even economic degeneration be bound to take place. To maintain at any cost the superiority in production, in sales; to employ every means for that object, every sort and form of competition; to open and reserve for itself every possible new market—would be a

necessity, a vital issue. The trader spirit, trader conceptions, trader interests, would dominate everything. What we see already in the extension of stock speculation to private circles, in real-estate speculation in our large cities and the incipient extension of it to places in the mountains and on the seashore prospectively rich in beautiful sites for foreign patronage or country outings, would penetrate more and more all the strata of society. What present-day England exhibits to us in sufficiently abhorrent form in her Boer War—its origin, its continuance, its object, the mode of warfare pursued—are not these symptoms enough to bring out in sharp relief, as with a searchlight, the real nature of the trader spirit which takes possession of a whole people like the English, otherwise so worthy, when it has reached the stage of "world-economic manufacturing and export State"? *Sapienti sat*, one would think! The picture, in good truth, is not an engaging one.

But these consequences are, to be sure, "in accordance with nature," even "a natural necessity," provided one has allowed the foundations of political economy to be shifted to this one-sided development. But whether this itself is a "natural necessity"—that is the question. Whoever—like the freetraders, like Dietzel and Brentano as well—basing his view, it may be, upon the above-mentioned doctrine of Torrens and Ricardo, simply answers in the affirmative, answers too easily. Whoever replies in the negative, or is doubtful about answering in the affirmative, at least takes the stand that a problem is in question here which cannot be solved offhand according to the cheap recipe of *laissez faire*: and this particularly because we are dealing, as is always the case in political economy, not only with "natural tendencies of development," but with things which are at all events *also* subject to human insight, will, and determination; and furthermore especially because the effects and attendant phenomena of the so-called natural economic development are of a character so grave that we cannot ignore the question whether in point of fact that development is inevitable.

We,—myself and others,—who in our view of the problem of Agrarian *versus* Manufacturing State differ with the freetraders and the Socialists, do not believe so. We find, therefore, in a condition of things in which agriculture continues to flourish, and a greater number of people continue to be employed in rural labor—even

though this be brought about by an agricultural protective tariff, a blessing for the nation as a whole. And this even if, as a result, consumers should be obliged to pay somewhat higher prices, temporarily or even permanently, than those that would, for the time being, obtain under free trade. We hold that such a condition has a more assured continuity; that the progressive evolution of a more wholesome economic life would offer and secure to the nation as a whole a mode of life and a kind of prosperity better suited to the real economic, social, ethical, cultural, and political interests of the entire community than the feverish activity of the purely manufacturing state. Such a state draws an ever increasing part of its needs in foodstuffs and raw materials from abroad—as long as it can, and they are not too dear—and disposes of an ever increasing quantity of domestic manufactures abroad—again as long as it can, and get a sufficient profit; not at prices, therefore, which would only allow the payment of starvation wages and cease to yield a satisfactory gain.

From this standpoint we favor "agrarian" demands, not to serve "bread-usury," not even, primarily, for the sake of the landowners or farmers—be they peasants of low, medium, or high degree, Junkers or lords of the manor—but because we regard the maintenance of a part of the population, absolutely and relatively considerable, in landownership and farming, and the permanence of the economic efficiency of such inhabitants, as an essential requirement of the welfare and the enduring economic and social, as well as physical, ethical, cultural, and political soundness and security of the whole nation.

We do not conceal from ourselves or others the fact that, like all great things of which a nation stands in need—defensive strength, internal administration, justice, educational system, care of economic interests, etc.—this "maintenance of the permanent economic and human strength of the nation" by an adequate quota of vigorous rural inhabitants demands sacrifices. But we believe that here, as in the other cases mentioned, it is necessary to make these sacrifices for the sake of the higher object. Brentano, in his second series of articles, seeks to cast ridicule upon our theory by representing it as one that contemplates cultural "supermen." But raillery is out of place in a matter so serious. If an appropriate economic policy

burdens the consumers, "labor," with a somewhat higher price of foodstuffs, even of bread—whether and to what extent it does so is still an open question which is by no means determined by the usual "statistical proofs" of the difference of cost between "dutiable" and "duty-free" grain[1]—this is a consequence, undesirable in one respect, but unavoidable. This should be counteracted by all possible means and certainly in part by express compensation, as we shall presently explain; but in so far as it cannot be prevented it should be accepted, and should be looked upon, and justified, as something that will help to guarantee to the nation as a whole a more tranquil, more assured general development, a thing that is

[1] The question of the effect of the duties on grain upon the price of grain (and similarly for other foodstuffs, though in these the matter is not of like practical importance), and again of the higher price of grain upon the price of bread, plays a part in the arguments of both parties concerning the grain duties and the Agrarian *versus* the Manufacturing State. In the customary, purely mechanical, view of the freetraders and the Socialists, the increase of the price of bread by the full amount of the duty on grain is assumed offhand to be proved by deductive reasoning, and is further declared to be established by inductive statistical evidence; and consequently the charge of "bread-usury" is made against the Agrarians and all other advocates of duties on grain. On the other side, too, counter-arguments are, to be sure, often treated too lightly, the objections to high bread-prices are belittled or glossed over, or compensation by automatic economic processes—especially by a supposed corresponding increase of wages—is too readily taken for granted. . . .

For the problems discussed in this paper, however, it is not necessary to enter more closely into this much-discussed, but still controversial, question. For even if it were right to assume that the price of bread keeps exact pace with the price of grain; that the latter follows, precisely and generally, in a great country like Germany, the duty on grain; that wages do not keep pace with the price of bread, and in particular that a rise in the price of bread means a corresponding fall in the real wages of labor—even if all this were assumed to be true and in agreement with the facts, the verdict against duties on grain would, even then, from a general economic and socio-political viewpoint, not be confirmed; nor would our position in this entire question of Agrarian *versus* Manufacturing State be by any means proved untenable. For the arguments advanced in the above text continue in force all the same, and it is only the necessity and expediency of compensatory measures that is made more manifest. . . .

So far as Germany is concerned, I am inclined to believe that the transference of the current duty on grain to the domestic price in general has now been completely effected; though I am in some doubt as to whether it was the abolition of the requirement of proofs of identity that brought about this complete transference, which is the assumption on which the pending tariff bill

certainly in the true interest of the working classes above all. In this circumstance, the nation, and not least the working classes, would receive, so to say, the "equivalent" for any sacrifices it might have to make.

* * * * * * * * * * *

The assumptions of the rapid, and ever more rapid, development of the manufacturing state, whereby the economic center of gravity is shifted more and more to foreign trade, are, first and foremost, that foreign countries are willing and able to supply us with agricultural products in general, and in particular with such as we require, at reasonable rates; secondly, that the obtaining of such products, in great part overseas from the New World and other

is based. Even in that case I do not feel myself obliged to modify my position on the question of grain duties, but I should like here to add two remarks. First, that even under the assumption of the complete transference of the duty to the price, what occurred—as all the statistics show—was not so much a rise in the price of grain as the prevention of any considerable fall in that price: the same thing in principle, but a very different thing in its practical effect, and therefore in the judgment that must be passed upon the whole measure from the standpoint of the interests of producers and consumers. Furthermore: the difference of price between foreign dutiable and duty-free grain at home, and between foreign grain in the exporting countries (Russia, North America, Argentina, etc.) and in a country with no duties on grain (England), on the one hand, and on the other hand between our domestic grain and dutiable foreign grain does not demonstrate, as has often been justly objected, everything concerning the real effect of a duty on grain. The fact may be that the duty is a factor in determining the world-market price, and that the world price of grain in the chief export and import countries would be higher if there were nowhere any duties on grain. In a related case, it is indeed pretty generally admitted that, in accordance with harvest eventualities and the like, the grain-import duty of a country falls more or less, and at times entirely, upon the exporting country, the price in *that* country being depressed by it; this is true in the case of a big crop of rye in Russia, Germany's need of it being less on account of the duty. To be sure, the protective effect of the duty will, in such circumstances, be diminished or disappear altogether, the financial effect alone remaining,—but this, too, is a favorable effect for the grain-duty country. If, however, it could really be assumed that in general the price of grain in the world market would be somewhat higher if there were no duties on grain, then another of the chief objections of the opponents of such duties—as causing a rise of prices, or as keeping them higher than they would otherwise be—would fall away. For their domestic prices also would be somewhat higher without the duties, because of their adjustment to the latter, and their dependence on the prices that obtain in the world market. . . .

parts of the earth and from Eastern Europe, is sufficiently assured; thirdly, that our manufactures will find an adequately assured outlet—either in the countries furnishing the agricultural products or in others—at prices profitable to us, so that the expenses involved in home production (including an adequate return to enterprise and capital) are covered. Only in case, and in so far as all of these assumptions can be realized, is the system of the manufacturing state, described above, to be regarded as practicable and permanent. Otherwise, it threatens to give way and collapse—to say nothing of all its other objectionable aspects and consequences.

Let us examine these three assumptions. Of the first and second, a brief discussion will suffice for our purposes; in the case of the first some statistical data must be brought in, to show the extent of our dependence upon importations from abroad. The third assumption is the most important for our problem of the manufacturing state, and must consequently be examined more thoroughly. In the matter of agricultural imports, we are concerned first and foremost with breadstuffs, wheat and rye; next with other grains, including Indian corn; and finally with some kinds of meat and fats, and occasionally live-stock and eggs—altogether, in the main, human foodstuffs. To these we must add raw materials, such as materials for spinning and weaving, skins, seeds, etc., and wood. A great part of these materials, especially those which we do not and cannot produce at home, are practically outside of the scope of our problem; for example, cotton, silk; these, like other "colonial" goods, must be obtained from abroad. Wool, especially of the inferior grades, and skins, we shall also permanently have to obtain from foreign countries. Nor is it likely that there will be a dearth there of those articles—at least of cotton and perhaps silk, and of some kinds of wool—so long, at any rate, as the countries producing them do not themselves develop manufactures in these lines; a thing which, to be sure, is by no means improbable in the future. Thus it is with foodstuffs, and among these with breadstuffs, that we are chiefly concerned.

* * * * * * * * * * *

We see from all these figures what immense values are involved, in the modern "manufacturing states," in the importation of foreign agricultural products, competing more or less with the domestic

output. And yet the chief difficulty, as is admitted below, does not consist in obtaining these articles from abroad, but in finding foreign markets for the manufactures which (along with other credits—freight charges, interest on capital investments and on current debts, etc.) serve as part payment for the imports. (See below, section 3.)

In spite of the gigantic magnitude of these imports, there is no special cause for immediate concern as to whether, and under what conditions, we shall be able henceforth to satisfy our needs, at reasonable rates, in breadstuffs and in most of the other commodities which we and Great Britain draw from abroad. It may be readily admitted, too, that the importation of grain furnishes a desirable safeguard against our still considerably fluctuating harvests. With the present system of transportation, however, we should, as has been remarked above, by no means suffer any deprivation should we not draw *regularly* upon foreign grain in such large quantities. But on the other hand, we can by no means always be sure—and probably less so in the future than now—that foreign countries will not at times refuse us the importation of the foodstuffs and raw materials which we require, or make it difficult for us to obtain them, owing either to their own needs—caused, it may be, by bad home harvests—or to considerations pertaining to their economic and financial policy. I will call attention only to the Russian embargo on the exportation of rye at the time of the great failure of the crops in 1891–92; to the British plan, already in operation, of an export duty on coal; to the thought that has been entertained in cotton-growing countries—e. g., in the 60's, after the Civil War, in the United States—of putting export duties on cotton. That country and people, of the crassest national economic egotism, under the leadership of its industrial magnates and heads of trusts, is capable of anything, and will, as soon as it sees therein an advantage to itself, put export duties on cotton, and possibly on grain also, if it seems in any way practicable; for example, if the United States should be the only, or almost the only, country upon which Europe could draw for grain.[1] After all duties on exports had been abolished, it was assumed that export duties, whether for financial or for protective purposes, had been "definitely done away with" throughout the civilized world. England has taught us

[1] Export duties are forbidden by the United States constitution. (Ed.)

otherwise. She believes that the other countries cannot do without British coal, particularly coal of certain kinds, and will therefore bear the burden of the export duty on it. She suddenly goes to work in 1901, "realistically" abandoning all "principles," and adopts this means of imposing part of the cost of the Boer War upon foreign countries,—as an atonement for their siding with the cause of the Boers, the Britons might contemptuously add! Besides, purely political grounds of enmity, of unfriendliness, of intentional injury to the land and people which stand in need of foreign products, may lead to the prohibition of exports or to the imposition of a duty upon them, as a general measure or one directed against a particular country; for example, in war times under the pretext of a "neutral" attitude—this applying especially to grain.

But even if our importation of foreign commodities were not intentionally made difficult or prevented by such commercial, financial, or general political policies,—the ability of foreign countries to supply our needs may be lessened, or cease altogether, temporarily or permanently. Temporarily, as has already been remarked, in the case of bad foreign harvests, as in the aforementioned case of Russian rye; as in the Civil War in the United States in the case of cotton, when its production ceased almost entirely, and its export as good as entirely, during the course of the war. Permanently, if the native population in the exporting state greatly increases, if its needs for the products of the soil multiply, or its own industries develop to such an extent that it needs all or nearly all of its domestic raw materials itself. Particularly in the case of such important providers of our foodstuffs and agricultural raw materials as Russia and the United States must these contingencies be positively reckoned with in a not very distant future. In those countries too, then, agriculture must become more intensive, and the cost of production be increased in consequence. Under such circumstances, we shall, at best, obtain these continued supplies of grain etc. from those countries only at considerably higher prices, and therewith one much-stressed advantage of the manufacturing-state régime will disappear. These supplies may, moreover, to a great extent, become permanently impossible. The possibility, namely, of acquiring steadily increasing quantities of breadstuffs—wheat and rye—for a growing world-population, is, according to recent investigations,

including inquiries into the natural climatic conditions requisite for grain culture, etc., much more limited than was formerly assumed by a widespread optimism, even though for the present there is little likelihood of a scarcity; in Argentina, for example, the area of cultivation could be greatly extended.[1] When cultivation becomes more difficult and expensive, the "problem of population" will loom up in the export countries also, and become more serious with us.[2]

In export countries like Russia, moreover, the export of breadstuffs to foreign lands does not even now represent, or at all events does not always represent, a surplus beyond their own needs. It is at least in part derived from the reduction of home consumption, in certain districts (often under stress of taxes and debts), to a point where the pangs of hunger are barely allayed. Every improvement in living conditions—surely desirable from a humanitarian standpoint—of a not inconsiderable part of the Russian lower classes will diminish the amount of grain available for export. In short, every statesman, every political economist who thinks not only for the moment, and who has to do with economic policy, must even at the present time take into serious consideration the uncertainty of a permanently large, and not too expensive, importation of foodstuffs and of many raw materials, above all of breadstuffs. This will necessarily lead him to adopt a cautious attitude on the "problem of the manufacturing state." The class-centered conception of mere commercialism, which thinks only of the immediate present and of its own advantage, cannot possibly be the guiding star of scientific thought or of rational, practical economics. Nor can the conception of our urban industrial workers, frequently equally short-sighted, and likewise stamped with class-selfishness, be the decisive

[1] Much is expected from the restoration of areas where grain and agricultural products in general were raised in the past—for instance, in Asia Minor, in Mesopotamia and neighboring regions—if, besides establishing adequate security under the law, it should be found possible, by a comprehensive system of irrigation, to make those countries better fitted for cultivation. An important consideration in regard to new areas also, such as those in South Russia. It is not only the extent of such areas that is overrated, but the amount of rainfall, which is contingent upon climatic conditions, and upon which the volume of water available for irrigation ultimately depends—a factor, not always sufficiently appreciated, to which my brother, Hermann Wagner, has specially called my attention.

[2] The author discusses this at length in his third chapter. (Ed.)

factor. These people, and those who lead and mislead them,—even assuming the good faith of the latter in such matters,—fix their attention only upon the momentary advantage of the lower price of grain, without concerning themselves about a lasting assurance of its continuance, or about the conditions involved. Even in the Social-Democratic camp, voices such as Schippel's or Calmer's, are like those of preachers crying in the wilderness and do not penetrate; nor, as we have seen, do they always dare to state plainly the necessary conclusions. But at least they do not belie the truth.[1]

2. But even if the countries which export agricultural products were always willing and able to satisfy our necessary demands, we must take into account, besides, that in the case of a country occupying a geographical and political position such as does Germany, in time of war—a contingency which we, for well-known reasons, must reckon with more than most of the European states—imports can more readily be cut off. Great Britain, in particular, with its insular position and its supremacy at sea, assured at least for the time being, is more favorably situated than our fatherland, hemmed in as it is between Russia and the Slavic world on the one side, and France on the other. And yet even in England itself earnest voices have already been raised, pointing out the danger of being starved out; and in thoughtful mercantile circles, even within the grain-trade itself, there has been serious discussion of the "mediæval" idea—an idea which impresses bigoted freetraders as downright insane—of maintaining great public storehouses of grain in England because the food supply of the country does not seem sufficiently assured through the processes of trade.

[1] Our problem of Agrarian *versus* Manufacturing State is extended here to the general problem of the limits to the possible increase of agricultural production of all sorts by the extension of cultivation throughout the world, and hence to the problem of population—the question of the limits to the possible increase of the population of the world, which is ultimately dependent upon the obtaining of agricultural products, particularly of foodstuffs. We cannot at this point enter into the matter more fully. But here, too, a warning voice may be raised against illusions as to the "unbounded" magnitude of agricultural soil in existence or to be acquired, particularly as regards the cultivation of grain. An interesting attempt to estimate by statistical data the area of the earth adapted for cultivation, by Ballod, may be found in the essay "Boden und Bevölkerung" (Soil and Population), a supplement to the *Tägliche Rundschau*, Jan. 12, 1900.

I do not wish to overrate the considerations thus brought forward; I admit even that the entire economic policy of a great state cannot be guided solely, or even primarily, by circumstances such as great political and military complications, which are, after all, temporary and exceptional. They will, however, form an important subject of consideration for every thoughtful economist and statesman. Objections and refutations, such as have been attempted by H. Dietzel, Brentano, and others, have not convinced me, at least, of the opposite. In his second series of articles, Brentano again expresses nothing but scorn for these apprehensions, and calls them the weakest argument of his Agrarian opponents. That is a matter of opinion. I do not overrate it—a thing which Brentano does not mention—but I do not take it as lightly as he does, even though I may, in Brentano's opinion, be acting here again like "clever Elsie" in the fairy tale.

3. More important, however, than all that has been set forth above—more important even than the uncertainty of a permanent profitable importation of agricultural products—is the question of the disposal of our own products, particularly of our manufactures, in foreign countries—in countries which export agricultural products, and in others. Here, too, the question arises: Will the countries always be willing, and able—and, for that matter, compelled—to absorb foreign products in general, and our manufactures in particular, and to pay adequately for them? Now we observe in those countries, again above all in the United States and Russia,—but in others also; Rumania and Argentina, for example, are making a beginning—strenuous efforts to render themselves more independent of the importation of foreign manufactures, to develop their own industries by means of high protective tariffs and other measures. And who can deny that these efforts have been crowned with great success, especially in the United States, but to some extent also in Russia and other agricultural countries, and that they are perfectly natural from the standpoint of the advocates of the manufacturing state? The difficulties involved in the disposal of the manufactures of the manufacturing states of Europe have, indeed, been steadily increasing. Above all in the foremost of these, England, they have in the last generation grown continuously greater; but even the Continental countries, Germany especially, are having the same

experience. Before examining the case of England more closely, however, let us consider an objection which our opponents are fond of making.

This industrial development in countries which were formerly agricultural is, they say, only a consequence of the agrarian protective policy of our own and other grain-importing countries. If we obstruct the importation of agricultural products for those countries into our own they are compelled, or, at any rate, stimulated, to develop their own industries and to find in industrial protection compensation for our agricultural protection! It was only our agricultural protective policy that drove them into their more extreme manufacturing protective policy.

This assertion, however, presents the facts and the historical course of events in an altogether false light. The other countries proceeded with their commercial policy entirely independently of us. They did so, too, in spite of England's absolute free trade as regards agricultural products. The most important of them, especially the United States and Russia, have long had, and still have, exorbitantly high tariff rates upon manufactures, and would have them even without our Continental agricultural imposts. They make, at best, some slight concessions in commercial agreements, as, for example, in the Russo-German agreement. And certainly from the standpoint of the manufacturing state, according to which the chief economic advantage is to be found in manufacturing development, there is, as we have remarked, nothing to wonder at in this commercial policy of countries which were formerly agricultural. How these excessive imposts upon manufactures affect European, including German, exportation to those countries is well known (United States, McKinley Bill, Dingley Tariff, Russia, etc.!), not to mention the aggravation of the tariff by tricky devices, or the *ad valorem* duty system (United States). The possible profit upon exports of manufactures is thus substantially diminished for us, and consequently also the possible rate of wages (Saxon textiles, Berlin cloaks, etc., Viennese mother-of-pearl articles).

On no account, however, dare we Germans threaten countervailing measures and reprisals, lest the freetraders raise an outcry at once. Just remain "nice and calm," "nice and quiet," "no grumbling," by no means irritate the other party, the Yankee, the Russian, by

raising our duties on agricultural products! What a pitiful exhibition was made in the winter of 1900–1901 by part of the free-trade press and by the mercantile interests! When those hectoring articles —of semi-official origin, it was said—appeared in the Russian press, in opposition to the contemplated raising of the German grain duties, our valiant merchants and their press promptly crouched under the lash, and soon themselves joined in blowing the foreign horn! We passed through a similar experience in the summer of 1901, at the time of the publication of the proposed German tariff. The "freetraders" and their political partisans again solemnly pointed a warning finger to the "bad impression abroad," and explicitly raised that cry as confederates against such a tariff! So lacking were these gentry in pride and the spirit of independence—a symptom of the "commercial spirit" of the manufacturing state. Very different certainly from the *borné* but proud spirit of the Boers, that of the agricultural state.

To the emancipation from the necessity of importing West-European manufactures—already begun, and in the case of the United States and Russia pretty well advanced—must be added a further circumstance. The other countries of Western and Central Europe—Britain above all—and in ever growing measure the United States also, compete sharply with us in the world market, in all the regions which offer a field for the disposal of our manufactures. Or, to put the matter with greater historical correctness, we Germans have been entering into ever more intense export competition with the other manufacturing countries, but the Americans are following us swiftly and have already in many directions overtaken us and the others, England included. Whence, otherwise, the well-known animosity of our British "cousins" against us? It is easy enough to understand: we spoil their market, their prices, make their sales more difficult. Apart from a temporary favorable turn during the last few years, British exports have on the whole remained pretty stationary for decades, as will be set forth more fully below, and they have become less profitable. The whole system of the manufacturing state, however, is literally dependent on a continual increase of the export of manufactures and its maintenance with the highest possible profit, in order to provide for the growing need of agricultural products, no longer covered at home. The only prospect

is that this condition of things will become increasingly acute. The recent commercial development of Great Britain is a striking proof of the probable future that awaits her—and all other countries with a one-sided development, wholly dependent upon the export of manufactures.

Commercial treaties with the countries which export agricultural products, and with others, may establish a *modus vivendi*, which, to be sure, is desirable. But they will not and cannot be of any effectual significance as regards the export of manufactures; and domestic agriculture will in the case of such treaties only too probably have to pay the score, as did ours in the Caprivi agreement. In specialties even the industrial countries, such as, for example, Germany, Great Britain, France, will always be able to complement each other more or less by reciprocal imports and exports. But whether they would do so permanently with much profit and with the requisite extension of trade, and in all the branches of such specialties, are open questions. And important as this may be, it scarcely suffices to procure for the one country the requisite great amount of sales in the other country, and to insure its permanence. For each country strives, again, to equal the other country even in the specialties of that other, in order that it may be under less need of importing them.

A country which exports manufactures can, indeed, better its condition by technological progress, which may be stimulated by the existing sharp competition. And it is a gratifying fact that a part of the recent manufacturing advance in Germany, in the chemical, iron, electrical industries, etc., is to be traced to that cause. But we have neither a monopoly of those improvements, nor are the other Western and Central European nations and the United States inferior to us in the capacity for technological progress. Whether Russia is so, or even the East-Asiatic countries, as is widely assumed, is still to be demonstrated. Here, again, I am not so optimistic as my opponents. Furthermore, the increase and improvement of manufactures, and the reduction of their cost, have their limits, even in the event of great technological progress. International competition, moreover, exerts a pressure upon prices and profits. Nor in its greed of gain does capital, "without a country," hesitate in the least to set up manufacturing plants abroad to compete with the home industries,

whenever it pays to do so. This has long been done on a grand scale by British capital the world over. But it is done also by capital —Continental, French, Belgian, Swiss, and not least German—in Poland, Russia, Austria, America, etc., especially of late, by the transfer of manufacturing establishments and business concerns to foreign countries offering better prospects, isolating themselves by protective tariffs, promising higher profits and lower wages for labor. This has been specially and justly stressed by Oldenberg. We shall very soon experience the same thing in China. Our position will thus be made still more unfavorable.

Accordingly, the universal cry is: new markets—in Asia, Africa, and wherever else something may still be expected. Assuredly, the proper result of the system. But it leads to a ruthless policy, to conflicts and combats, either with the governments and peoples and manufacturing concerns of the regions themselves which it is desired to open up as new markets, or with the other competitors for the economic conquest of those regions. A ruthless "Get out of the way, I want to take your place" is the outcome,—with all its grievous and mournful ethical, human, social consequences. The South-African tragedy and the shocking method of warfare of the "pious" Britons against the Boers, at which all Europe and America stand aghast,—where indeed is the ultimate cause for all this to be found but in that policy of expansion and robbery, aimed at the conquest of territory where some economic advantage may still be reaped?—though in this case there enters also the *auri sacra fames*, the desire for the possession of the Rand. But let there at least be no prating about "Christianity."

However, one might possibly disregard all that if this "sales policy of the manufacturing state" yielded adequate and lasting results! After all that has been said, this still remains to be proved; and the recent developments of the trade of the most important manufacturing state, the British, has, as we shall see, demonstrated unmistakably that it is an illusion.

And when by the transfer of European and American industrial, commercial, and banking capital to countries which are the source of many agricultural products and which have hitherto furnished a market for our manufactures, competitive manufacturing establishments, with cheap labor, shall have been created; when the

East Asiatics—Japanese, East Indians, Chinese—shall have been supplied with tools, machinery, technological experts, business managers, foremen; when they shall have been instructed in methods of production and provided with railroads etc.—what will the result be with those peoples? That they will have less need of our manufactures, will work up their raw materials at home, will compete with us in outside markets, nay, in our own domestic markets themselves—and all the more successfully since they have at their disposal much cheaper labor. Many signs of such a state of affairs are already apparent, particularly in Japan and in India (cotton manufacture). Even if these civilized Asiatic nations are considerably inferior in intellectual originality and technological inventive ability to the European races, a thing perhaps too confidently taken for granted; even if their workmen, with poor pay, food, and mode of life, are less efficient than ours, and thus their low wages do not mean a correspondingly low cost of production; if, with the development above indicated, their scale of wages should soon be considerably raised—as is said to be the case already in Japan—and thus that disadvantage for us, as the competitors of those peoples, would be steadily diminished; those East Asiatics would nevertheless retain, at least for a considerable time, a decided advantage over us in cost of production. But that is the decisive factor! And in that factor lies the limit of our development of the manufacturing state: we should then have to sell at lower rates, that is, on the basis of lower wages and smaller profits, and could not even on such a basis do so with certainty of permanence.

# XIV

# SCHÜLLER: EFFECT OF IMPORTS UPON DOMESTIC PRODUCTION[1]

## Partial or Complete Displacement of Domestic Branches of Production through Foreign Competition

UNDER a system of free trade goods are imported in case the most unfavorable conditions of production required in a foreign country for supplying its needs entail less expense than the most unfavorable conditions to which recourse must be made in the home-country for satisfying the domestic demand. But only a portion of the domestic production of a commodity entails the maximum expense, the other portions being produced at progressively lower cost, which may be just as low as, or even lower than, the expense entailed by those foreign factories operating under the most unfavorable conditions. As the price of foreign goods must, as a rule, cover the maximum expense involved in production abroad, it follows that those domestic producers whose expenses are less than those of the most unfavorably situated foreign producers are in no case supplanted, even under a system of free trade, in consequence of foreign competition. They maintain themselves, at a price corresponding to the maximum foreign expenses, just as easily as, or more readily than, the foreign producers whose production involves the same expense.

To foreign prices must be added, in the majority of cases, an additional sum covering the higher cost of transportation, extra charges for packing due to consignment to more distant points, loss of interest, larger sales-expenses due to the greater difficulty of personal contact, etc. The extra expense which must be borne by the foreign seller differs, of course, for different commodities. In the case of cattle imported from more distant regions, the expense

[1] Richard Schüller (1870– ), Schutzzoll und Freihandel (1905), chap. ii.

is much greater than in the case of grain; in the case of grain, vegetables, and fruit, the extra cost is considerably greater than in that of silk goods or other industrial products of relatively high value. The freight-rate on a carload of cabbage, purchased in Italy for 500 marks, amounts to more than 1000 marks on consignments to Germany. Most difficult and expensive of all is the transportation of cattle to overseas points. A factor of great importance, moreover, is the depreciation of goods in transit. The loss in the transportation of flowers from southern to northern regions is reckoned at about 50%; that of oranges, at 30%.[1]

Domestic factories whose production-cost is less than the foreign price of the commodity as increased by the amount of the additional charges in question are in any case able to maintain themselves, accordingly, under a system of free trade. In addition to the fact that the commodity may be produced at home at varying degrees of expense, there is another reason why foreign production, in spite of its adaptation to export purposes, is able in many cases to supplant domestic production only in part. Thus, when a foreign country exports a commodity, it must expand its production of this commodity. But as the expansion of a branch of production results, *ceteris paribus*, in an increase of the cost of the quota produced under the most unfavorable conditions, exportation necessarily involves, as a rule, an increase in the maximum expenses of the exporting State. If, e. g., the maximum cost required for meeting Germany's need for iron amounts to 35 shillings per hundred kilos, and the maximum expenditure on that part of Austro-Hungarian production required for meeting the home demand were 45 shillings, it by no means follows that the German ironworks could supply at 35 shillings, in addition to the German demand, the whole of the Austro-Hungarian demand as well. As a result of exportation of German iron to Austria-Hungary, the maximum expenses and prices prevailing in Germany would ordinarily be augmented. If in consequence of the graduated conditions of production a part of the Austro-Hungarian iron-foundries could maintain themselves even

[1] In many cases, however, the transportation-cost from foreign points to certain domestic regions is less than in the case of consignments from more remote domestic factories.

at 35 shillings, a still larger proportion of Austrian ironworks could maintain their production at the German price (now increased to a rate above 35 shillings), in spite of importation. The domestic plants whose operating-costs are less than the foreign prices as increased in consequence of exportation cannot be supplanted by means of foreign competition.

The fact that even under a system of free trade the production of a commodity is frequently possible, in spite of the superior advantages of foreign competition, is as a rule attributed to various factors,[1] mostly non-economic, or to changes in monetary value. If every State could produce any quantity of a commodity it liked at the minimum cost at which this commodity is manufactured within its territory, there would be no other explanation for this phenomenon. But a study of the actual conditions shows that in most cases, where only a portion of the domestic production of the commodity in question is supplanted, by far the most important reason is to be found in the fact that *all domestic plants which operate at a lower—or, at least, not at a higher—cost of production than those factories abroad which compete on the most unfavorable terms in supplying the foreign and the export-demand are able to maintain themselves without a protective tariff.*

Experience shows that a great many commodities which are imported from abroad are produced at the same time, in larger or smaller quantities, at home. This is true not only of commodities subject to duty, but also of those which are imported duty-free. Fruit, vegetables, wool and flax, iron ore and iron pyrites, posters and calendars, etc., are shipped duty-free into Austria-Hungary, and at the same time produced at home. In this connection, differences of quality play an important rôle; but it is unquestionably true that even products of equal or equivalent quality are, on the one hand, imported and, on the other, produced at home. We note the importation into Great Britain of numerous agricultural and industrial products and, at the same time, the production in Great Britain of most of these same commodities, and this without any

[1] Such as the "instinctive reactions of historically developed national individualities, seeking to maintain themselves in their present sphere of activity."

protective tariff.[1] Equally conclusive is the circumstance that a great many commodities subject to protective tariff are partly imported and partly produced by the importing State. We shall not enlarge on this phenomenon, as we are here concerned with the effects of free trade.

* * * * * * * * * * *

As a result of the fact that the same commodity is produced in the same economic field at various degrees of expense, and that the price must correspond to the maximum expense in the long run, it follows, to repeat, that commodities may be produced at home, even under a system of free trade, at the same time that foreign countries are in a position to export these goods to the country in question. But it would be incorrect to assume thereby that it is impossible to suppress the domestic production of any commodity *completely* as a result of foreign competition. The domestic production of a commodity which foreign countries are in a position to export to us can be maintained only when partial quantities of this commodity are produced at home more cheaply than the maximum foreign cost. The complete suppression of domestic production of a commodity by means of foreign competition takes place when the foreign factories are able to supply the entire domestic demand at a price lower than the production-costs of the domestic factories operating under the most favorable conditions.

* * * * * * * * * * *

[1] AMOUNTS IN GREAT BRITAIN, ACCORDING TO GIFFEN

| | Imports | Domestic Production |
|---|---|---|
| | Million Pounds Sterling | |
| Grain and meal | 36. | 10. |
| Potatoes | 1.6 | 21.4 |
| Vegetables | 2.5 | 23.5 |
| Meat | 48. | 82. |
| Butter, cheese, milk | 35. | 35. |

## Refutation of the Assertion that the Total Domestic Production cannot be diminished as a Result of Importation

In all cases where the essential conditions for the complete suppression of domestic production of a commodity by means of foreign competition are absent, the commodity in question is produced at home, even under a free-trade system; and the explanation of this fact requires neither non-economic factors nor a change of monetary value. That portion of the domestic production of a commodity, however, whose cost of manufacture exceeds the maximum costs of foreign production established under a system of free trade is actually supplanted in consequence of importation. In extreme cases, domestic production in its entirety is made impossible by reason of importation. Regardless of whether the domestic branch of production is partially or wholly suppressed, in any case an actual diminution occurs in the total production of the State.

The advocates of free trade maintain that their system cannot diminish domestic production, but that compensation is offered, for the falling off in the production of a commodity in consequence of foreign competition, by the fact of the increased production of *other* commodities. This assertion is based primarily upon the claim that, in every State, there is a definite quantity of productive forces—land, capital, and labor—which on the whole are always actually employed for productive purposes, the units displaced from one branch of industry being drained off into the channels of other productive branches for which the home-country affords relatively more favorable conditions. The sum total of production according to this theory is not diminished, but rather—by virtue precisely of these more favorable conditions of production—increased. According to this view, a diminution of domestic production can occur only in consequence of emigration of the productive factors, which, however, as a matter of fact, is held not to occur.

This theory rests upon two suppositions: (1) the assumption that no portion—economically considered—of the given productive forces can fail to be utilized; (2) the assertion that, through the

operation of free trade, labor and capital are devoted to those branches of production for which the relatively most favorable conditions prevail. We shall consider only the former premise, as this constitutes the sole basis for the conclusion that the sum total of production is not susceptible of diminution by reason of free importation; the second assumption being that the totality of production is not only not diminished, by freedom of importation, but is actually increased, by reason thereof.

Adam Smith did not fail to recognize the fact that the means of production of a given country are exploited in different degrees, according as the sum total of economic activity is increasing, diminishing, or constant. But in his treatment of economic questions, he proceeded on the assumption that all the available productive units are always being fully utilized, and that importation does not operate to limit these forces, but serves merely to divert them from one branch of production to another. Smith assumes, further, that the inherent possibility of the emigration of productive factors does not offer a relevant consideration. Ricardo—although he, too, is well aware, where it is not a question of trade policy, that two States which are equally well equipped with productive factors may nevertheless undergo a different course of economic development—has nevertheless formulated very clearly the theory that the production which takes place in a given State represents a given quantity that is determined by the existing means of production, and accordingly cannot be diminished by reason of importation. This is expressed, with great precision, in his well-known illustration. If wine and cloth are produced in Great Britain at a greater cost of labor than in Portugal, the disparity to the detriment of Great Britain being greater, however, in the case of the wine than in that of the cloth, then on the establishment of free trade Great Britain will continue to manufacture cloth, and do so to the extent represented by the fact that all the productive forces previously at the disposal of wine producers will be utilized in the manufacture of cloth.

This theory has been opposed by List, in his detailed discussion of the evolution of productive forces: "It is wholly inert natural forces—natural resources wholly devoid of value—to which vitality and value are imparted through the establishment of a factory force in an agricultural nation." This sound and significant basic

conception of List's was, however, very much obscured, in consequence of the theoretical disguise in which it was presented. That is, to the "theory of exchange-values," he opposed, as everyone knows, the "theory of productive forces": "By means of importation, the exchange-values at the disposal of the population are increased, in consequence of the lowered costs of consumption; while the productive forces, by reason of the suppression of domestic production, are diminished." This theory is untenable, as a diminution of the productive forces carries with it a depreciation of exchange-values, which, of course, are created only through the operation of the productive forces. In addition to this fallacious theory, List made the further mistake of admitting the validity, with reference to a large portion of economic activity covering the whole field of agriculture, of the theory, otherwise rejected by him, that the productive forces are always fully utilized. According to his theory, agricultural production cannot be diminished in consequence of permitting the free importation of its products. This theory List sought to confirm by reference to the alleged fact that manufactures are promoted by free trade in agricultural products —a circumstance which, considering the importance of industrial consumption from the standpoint of agriculture, is said to redound indirectly to the advantage of the latter. He claimed, further, that these indirect effects of free trade in agrarian products are of greater importance to agriculture than are the direct effects.

The argument that domestic production is not susceptible of diminution by means of importation, owing to the fact that the total productive activity of every State represents a fixed quantity determined by the existing productive forces, and that the productive factors displaced from one branch of industry are merely diverted to another, still represents one of the main contentions of the advocates of free trade. It is opposed, however, by the fact that the productive forces of a State are exploited in very different degrees—or not at all. The physical agents of an economic nature,[1]

[1] In contradistinction to the natural forces which are available in greater amounts than those which are utilized—such as, e.g., the natural forces which operate in machines, the air, and, according to circumstances, those mentioned above. We speak here of *economic* natural forces, which exist in smaller quantities than are required for use, and which are accordingly conserved.

—fertile soil, deposits of coal, ore, and minerals, and water-power,—constitute the most sharply defined productive factor, as they cannot be increased. Nevertheless, no country exploits them to their maximum capacity, but every State has them at its disposal for the purpose of expanding the branches of production for which they are required. Almost all countries have witnessed, during the last century, a great increase in agricultural production, in the amount of grain produced—as in the case of field-crops and garden-produce in general—in stock-raising, and in mining; and this increase still continues. The economic physical agents required for this purpose have been available and are still accessible.

The foregoing has served to prove more than is necessary for the refutation of the theory that the economic natural forces available in a given State are always actually utilized. That this view is unsound is seen in the very fact that it is at least *possible* for a portion of these forces, in a given country, to remain undeveloped. It is thus incorrect to assert that all the physical agents, recourse to which is hindered, in a given branch of production, by reason of foreign competition, are utilized in another branch of industry.

Just as in the case of the utilization of the forces of nature, and in equal measure, is it untrue to say that the active working-force of a country constitutes a fixed quantity which determines the expansion of production as a definite value that cannot be diminished in consequence of foreign competition. That this is not the case is seen in the very fact that the number of domestic workers may be increased by immigration from abroad and diminished by emigration. Migration on the part of the workers is hindered by many obstacles, the most important of which is the natural attachment of human beings to their home. Nevertheless migration plays an important rôle. America, South Africa, Australia, the Rhineland, the industrial regions of German Bohemia and of Russia, all have experienced a great increase in the number of available workers in consequence of immigration; while Ireland, east Germany, Galicia, Italy, have lost many workers through emigration. The United States of America, during the period from 1820 to 1900, has witnessed an increase of population amounting to more than twenty million persons in consequence of immigration. Most of the Russian

industries have been established by foreign engineers, technicians, and workers. Even now, two-thirds of the directors of Russian cotton-mills and one-third of the technical workers of Russian factories in general are foreigners. Balfour rightly remarks: "It is assumed . . . that the British manufacturer adheres to his country and changes his business. But he may choose the other alternative. He may adhere to his business and (*qua* manufacturer) change his country." We thus see the incorrectness of the very presupposition of the free-trade theory, viz., that labor and—as we shall see directly—capital do not suffer emigration or immigration to a considerable extent.[1] The mobility of these factors, owing to modern economic conditions,—especially those of transportation and intercommunication,—has increased far beyond the point that could be foreseen by Smith and his disciples. Of still greater importance, however, is the circumstance that migration of the factors of production by no means constitutes, as the economists of that school assume, the only way in which the productive activity of a country may be increased or diminished.

Quite apart from the factor of migration, the active working-force in any country may experience a great augmentation or diminution. According to the nature of the facilities for earning a livelihood, a considerable or inconsiderable portion of the workers of a country are unemployed. The extent to which this is true is at present decidedly underestimated, and will be fully appreciated and correctly estimated only upon the completion of a comprehensive system of unemployment statistics—such as are unavailable at the present time. Of equal importance is the question as to how these workers who are actually employed are utilized. They may be fully or only partially active, according as the factories find a larger or a smaller outlet for their products. The workers may, furthermore, be employed in a capacity commensurate with their qualifications, or they may be engaged in work in connection with which their skill is not brought into play, owing to the fact that there is no corresponding demand for the products of skilled labor.

[1] In addition to this theory, still another view prevails among advocates of free trade. They admit that labor and capital migrate, but declare all such cases of migration, as effected by foreign competition, to be advantageous, from the international standpoint.

The amount of work performed in a given time by any worker differs greatly according to whether he exerts himself or not. By virtue of higher pay and more favorable conditions of work, the amount of work performed may be greatly increased, and the zeal and capacity for labor on the part of the present generation, as well as the physical and mental capacity of the coming generation, may be markedly augmented.[1]

In still smaller measure than in the case of ordinary labor is it true to say that the forces represented by skilled labor are always utilized. The capacity for the establishment and improvement of factories, in particular, asserts itself very diversely according to the circumstances of domestic opportunities for earning a livelihood. And it is precisely the greater or lesser degree of utilization of executive capacity that exerts an essential influence upon the amount of domestic production. The more such capacity is translated into activity, the greater are the opportunities for work that are created, the more effectively are the available labor-forces applied, and the more advantageous are the working-facilities devised; while, in the opposite case, labor is wasted on every hand. The effectiveness of the labor-forces of a country may, in consequence of the circumstances adduced, be greatly increased or markedly reduced.

It is equally erroneous to assert that domestic production represents a fixed quantity owing to its expansion's being determined by the quantity of existing *capital*. If corresponding opportunities for gain exist within a country, capital is attracted from foreign countries. In spite of the difficulties which stand in the way of the migration of capital, this nevertheless occurs to a considerable extent. In Austria many enterprises were consummated with foreign, especially German, capital,—often as branches of foreign enterprises. The amount of foreign capital invested in Austria-Hungary is estimated at ten billion kronen. Approximately two billion pounds of English capital has been invested abroad,—in almost all countries. The amount of German capital lent to foreign countries is estimated at eighteen billion marks. Capital of England, Germany, France,

[1] The possibility of increasing the amount of work performed was clearly proved in connection with the substitution, for socage, of the freer labor of peasants and wage-earners.

Belgium, and other States is invested in many enterprises in the United States, Russia, the Balkan States, Asia, and Africa.

But even the domestic capital available for production in a given country does not constitute a fixed amount. The proceeds of all the economic enterprises which constitute the subject-matter of political economy are utilized partly for purposes of consumption and partly for further production. The relation between the two varies. The savings of the past which may go to make up capital may be differently applied. Consumption and production compete for their portion. It is possible, on the one hand, for the entire proceeds of the period of production to be consumed—in fact, for the capital derived from earlier periods to be diminished for purposes of consumption; while, on the other hand, this capital may remain intact, and even be increased, to the extent of a larger or smaller portion of the returns of each new period of production.

Another circumstance of great importance is to be found in the fact that the same amount of capital may lead to varying degrees of production, according to whether the technique is more nearly or less nearly perfect, and according as the capital is employed for the production of articles intended for immediate consumption or for that of machines and other capitalistic equipment by means of which, with the same amount of capital and labor, a larger volume of commodities is created.[1] The amounts of capital already invested may, moreover, be utilized in different degrees. Although a factory, e. g., represents a definite amount of capital, it is associated, nevertheless, with varying degrees of productive force, according as it is working at partial or maximum capacity. Thus, it is true that domestic plants which for varying reasons (one of which is precisely the effect of foreign competition) are unable to operate at their maximum capacity represent an amount of capital which from the mechanical standpoint is unchanged; yet their capital is from the *economic* standpoint diminished. Foreign competition may destroy domestic capital; while by the limitation of this competition domestic

[1] It may be asserted with confidence that there is not a single branch of production whose proceeds, based on the current method of production, could not be considerably increased; and this without a single new invention—simply by the insertion of intermediate capitalistic links which have long been familiar. Böhm-Bawerk, Kapital u. Kapitalzins, 2d ed., Vol. II, p. 91.

capital may be increased. A further fact to be considered is that a portion of the commodities utilized or consumed in the course of production are produced during the period of production itself. The amount of these commodities is a portion of the production as a whole. Raw materials and semi-manufactures, moreover, may be procured from abroad even more readily than liquid assets, being paid for out of the proceeds of production. This brings us to the factor of credit, whereby the amount of capital available for domestic production may be increased in varying degrees.

Although the productive factors of every State are limited, the assertion is unwarranted that there are definite maximum and minimum points which these factors cannot appreciably exceed or fall short of, respectively, and that consequently the importation of foreign goods effects only a displacement but not a diminution of domestic production. The possibilities of development of the productive forces of a given territory are, on the contrary, very diverse; and foreign competition may lead to a retardation of domestic production, hampering the utilization of available but as yet unexploited productive factors.

Not only is it true that in consequence of foreign competition domestic forces may remain unexploited or may be less adequately utilized, but, in the second place, we must take into account the further fact that the transfer of productive factors from a given branch of industry—from which they have been supplanted by reason of importation—to another branch, either does not occur at all, or else takes place at a considerable loss. Available means of production that can be utilized only for the manufacture of certain definite commodities cannot be used at all, and lose their status as economic commodities, when the production of these goods is rendered impossible through the importation of these same commodities. Thus the forces represented by the resources of the soil would remain undeveloped if the entire production of a given State, based on the exploitation of the soil, were supplanted as a result of importation. Machines and factory facilities adapted only to the production of a definite article cannot be transferred to another branch of production. It frequently happens, furthermore, that means of production suffer partial depreciation, in the process of transition. In case managers, technicians, weavers, spinners, are compelled to

take up a new line of employment, the skill which they have acquired is lost as an economic value. These consequences of a transition from a system of protection to one of free trade, and also under a permanent system of free trade, may by reason of the changed conditions of competition involve a very considerable diminution of domestic production. This phenomenon, however, though it has been frequently emphasized, appears to be only a secondary factor as compared with the fact—demonstrated by the foregoing discussion—that importation may effect a *permanent* diminution in domestic production, or at least may serve to hamper its expansion.

## The Fallacy of the Theory that Production cannot be diminished by Importation because Exportation expands in Proportion to Importation

The proponents of free trade maintain, further, that the volume of imports and that of exports in a given country coincide on an average,—apart from the exceptions due to international indebtedness,—and that, consequently, increased importation must lead to a corresponding increase in exportation—perhaps through a change in monetary values. In the same degree, accordingly, as domestic branches of production are supplanted through importation, the production of commodities for export—so it is argued—must increase, with the result that domestic production as a whole is not susceptible of diminution by reason of foreign competition.[1]

This mechanical conception of commercial intercourse is erroneous. Let us assume, for the moment, that an expansion of the volume of imports must actually result in a corresponding increase in the sum-total of exports: there is, however, absolutely no proof that the

[1] Sidney and Beatrice Webb (Theory and Practice of the English Trade-Unions, II, p. 261): "Without penetrating to the depths of the orthodox theory of international trade or of the mysteries of foreign exchange-rates, everyone will admit that an increase of our total volume of exports tends— as is shown by experience—to increase in equal measure the sum-total of our imports." Brentano, The Free-Trade Argument, Berlin, 1901, p. 9: "If our demand for an annual supply of Russian rye, to the value of sixty to seventy million marks, ceases, owing to the fact that we ourselves produce the required amount of rye, foreign countries will no longer be able to buy from us the goods by means of which we have hitherto paid for Russian rye."

increased volume of exports signifies an increase in domestic production. The volume of exports may be augmented at the same time that production is being maintained at the same level, or is even falling off—a larger portion of domestic commodities being exported than hitherto, and a smaller portion being consumed at home. If, e.g., Austria's entire demand for industrial commodities were supplied by foreign countries, and Austrian manufactures accordingly were suppressed, the demand throughout Austria for agricultural materials and foodstuffs would necessarily be so diminished, in consequence of the falling off of consumption based on industrial needs, that the price of these commodities would be considerably depressed, while Austria's exportation of agricultural products would increase. Increased exportation in this case would accordingly be brought about through the diminution of the domestic demand, but without any expansion in the domestic production of agricultural products. The increase in the volume of exports which thus takes place may serve to offset the increase in importation; but this carries with it no expansion of domestic production, and accordingly offers no compensation for the decline in production due to increased importation.

The same thing is true of the partial or complete supplanting, and of the hampering of the development, of any domestic branch of industry, in consequence of foreign competition. In such cases the consumption of the domestic materials in question, and of the commodities required by the workers, does not take place, owing to the fact that the branch of industry in question, in consequence of importation, is either not operating at all or else only in a reduced capacity. The prices of the goods which would have found a market in connection with the suppressed industry undergo a domestic decline; and these commodities are thus liberated for exportation in greater quantities, serving to pay for the greater volume of imports.

Apart from the process which we have just discussed, the increase in exportation which keeps pace with the growing volume of imports may assume the following form also. In line with our increased volume of importation and the consequent expansion of production on the part of the foreign country which is exporting commodities to us, that country experiences an increased demand for different commodities, including as a rule the goods which it procures from us. Thus our own exportation and production are augmented, but

only by an amount which represents a fraction—often an absolutely negligible proportion—of the sums represented by the increased volume of imports and the decline of domestic production. If, e.g., the exportation of woolen fabrics from England to Austria-Hungary should increase by the amount of fifty million kronen, and the Austrian production should suffer a corresponding decline, the development of the production of English woolen goods might, to be sure, lead to an increased demand for sugar, eggs, and other commodities, which we—and, of course, other countries as well—export to England. But the increased production on our part occasioned thereby will represent only a small part of the sum of fifty million kronen which corresponds to the increased volume of imports. Thus in case increased importation does lead to a corresponding expansion of the volume of exports, the phenomenon is traceable only in part—usually only to a slight degree—to an augmentation of domestic production.

Furthermore, the importation of a commodity does not necessarily increase the total volume of imports of the State in question—or, at least, not by the full amount of the article under consideration. If, e. g., foreign cotton yarn is imported, thus supplanting in part products of the domestic spinning industry, imports will to be sure be increased by the amount of the spinning cost of the imported cotton yarn.[1] At the same time, however, there will be a diminution in the importation of commodities—such as tobacco, groceries, meal, etc.—consumed by the operatives of the spinning mills and their auxiliary industries. This decline in importation, occasioned by the falling off of consumption, does not of course result in an expansion of the domestic branches of production in question—in so far as such commodities are produced at all at home. Thus increased importation, in consequence of which a portion of home production is suppressed, may be partially offset by a decline in the importation of other goods, which, however, fails to lead to any expansion of domestic production. It may be urged, on the other hand, that importation serves not only to diminish domestic production and the demand resulting therefrom, but also lessens the cost of consumption, resulting thus in the liberation of resources which may be used to increase the demand for other commodities. This is true; but it is

[1] Only by this amount, because at the same time the importation of the corresponding quantity of raw cotton comes to an end.

only in the case of certain goods that the price is reduced to a considerable extent as a result of importation, production meanwhile being only slightly reduced; while, in the case of other goods, production is very markedly diminished but without the price's being appreciably reduced. The importation of the latter class of goods is, on the whole, disadvantageous. In this case, owing to the extent to which the production of these commodities has been suppressed and the demand for materials and the necessaries of life associated with this production has been reduced, the total consumption is accordingly diminished by an amount which exceeds the increase due to the reduced price of these commodities.

The foregoing considerations lead to the following conclusions. Even if one were to admit the validity of the proposition that on an average—apart from exceptions due to international indebtedness—the imports and exports of a State offset one another, this nevertheless would offer no proof that the importation of a commodity leads to an automatic increase in the home production of other goods, and that consequently domestic production as a whole cannot be diminished by the importation of foreign goods. The decline in the domestic production of the imported goods, due to importation, serves rather to reduce the home demand for other commodities, thus rendering possible a larger exportation or a smaller importation thereof.

## The Fallacious Theory that the Effects of Importation upon Production are offset by Reason of the Influence of Importation upon the Value of Money

The argument that domestic production is not diminished by reason of free trade, owing to the fact that exports and imports necessarily offset one another, is by no means strengthened by representing a change of monetary values as an intermediary link by virtue of which the equalization occurs. This theory, as developed by prominent advocates of free trade, is as follows: In case of a permanent debit balance, it is necessary, in order to balance the account, for money to be exported, which process results in the increase of domestic money values and the depreciation of the prices of commodities. The reduction of domestic prices—so it is urged—

results in increased exportation and a smaller volume of imports, so that the trade balance is automatically equalized. This leads to the conclusion that domestic production cannot be diminished by reason of importation, because—so it is alleged—the decline in production, due to a preponderance of imports, leads, through its influence upon monetary values, to an increase in the volume of exports or to a reduction of importation—and hence to an augmentation of production; so that the deficit caused by a preponderance of imports is overcome.

In order to throw light upon this theory, let us set forth, briefly, the influences exerted by changes in the value of money upon foreign trade. Such changes may occur: (1) through a change in the monetary standard of a given State in relation to that of other States; this takes place when, e. g., it is possible to purchase 100 marks, hitherto procurable at 117 kronen, for 110 kronen, or for 120 kronen; (2) through a change in the value of the monetary standard of a State, in relation to the value of commodities, resulting in a general rise or depreciation in the prices of commodities throughout this country.

Let us consider the first case. If our monetary standard falls, in relation to that of foreign countries, the foreign money, which we receive in return for our exports, represents a larger amount, in terms of our currency, than was represented by the same amount of foreign currency hitherto; and our volume of exports will, accordingly, increase. The foreign country, on the other hand, receives, to be sure, the same amount of our money, in return for the goods delivered to us; but this money represents, in terms of its currency, a smaller amount than before, and the volume of our imports, accordingly, declines. The depreciation of our monetary standard, in relation to that of other States, accordingly results, other things being equal, in increased exportation and decreased importation. The converse effects occur in the event of a rise in our monetary standard in relation to that of other countries.

Let us assume, e. g., that one onza of Argentine money is equivalent to three pounds sterling of English money; and that, under these circumstances, wheat is exported from Argentina to England, the Argentine seller receiving for one hundred kilos of wheat one pound sterling, or one-third onza. Let us assume that the Argentine currency depreciates to the point where the exchange value of the

onza is only two pounds sterling. The amount of one pound sterling, which Argentina receives for one hundred kilos of wheat, is now worth no longer one-third but one-half onza—with the result, of course, that the volume of wheat exports consigned to England necessarily increases. If, on the other hand, England sells cotton goods to Argentina, receiving one onza per piece, this was hitherto equal to three pounds sterling, whereas now one would receive only two pounds sterling for it—with the result that the exportation of English cotton goods to Argentina is reduced.

Changes in the monetary standard of a given State with relation to that of foreign countries are due, e. g., to the fact that its currency is based on a different metal. The relations obtaining between the several monetary standards are, accordingly, displaced when the relative value of the precious metals in question undergoes a change. The depreciation of the value of silver, in relation to that of gold, results in facilitating exportation in those States which have a silver standard, and hampering the process of importation into those countries; while in those States which have a gold standard the converse occurs.

There remains for us to consider the second case mentioned: the rise or fall in the value of the money of a given country relatively to the value of its commodities. The rise in the value of money causes a depreciation in the value of commodities in proportion to foreign goods, with the result that exportation is facilitated and importation checked. This process requires, however, as one of the preliminary conditions, that the same change shall not have taken place in the foreign countries with which we have trade relations. If, e. g., the prices of Austrian goods, in consequence of an increase in the value of our currency, are reduced 10%, the relation of monetary values to commodity values elsewhere remaining constant, this means that domestic prices have fallen 10% in relation to foreign prices—which results in an increase in the volume of exports and a reduction in that of imports.

The far-reaching consequences, for the whole field of economic life, induced by changes in monetary values do not belong to the scope of this inquiry. A sound policy with respect to the currency system should unquestionably aim at securing the utmost stability for the monetary standard, striving, accordingly, to prevent its

either rising or falling. But our interests are affected not only by such a possible rise or fall in domestic money values in relation to commodity values, but also by changes which occur in foreign countries. The money value depreciates in relation to commodity values, in case a country's medium of circulation is increased out of proportion to the increased trade requirements—e.g., in consequence of large volumes of new coinage or of extensive issues of paper money. If, on the other hand, the circulation of money is reduced, at the same time that trade requirements remain constant or are on the increase, the value of money rises in proportion to commodity values. In case such a rise or depreciation occurs universally, foreign trade is not affected thereby. But individual States have often experienced changes in money values in marked degree, these changes, in this case, exerting the effects in question. Thus Spain and Portugal, subsequent to the discovery of America, witnessed, in consequence of the importation of great quantities of the precious metals, a very marked monetary depreciation—a change which failed to occur, in the same degree, in the other countries of Europe. This took place, of course, at a time when foreign commerce was far from having attained its present importance. But even now, changes in money value occur, in relation to commodity values, either confining themselves to certain States, or making themselves felt more intensely in these countries than elsewhere. It is particularly changes in money value due to the policy of a given State with reference to its currency system which are, as a rule, confined to the State in question, exercising upon foreign trade the influences under consideration. But without any interference due to a given policy with respect to the currency system, a marked rise in the value of money may take place in a given country, by reason of greatly increased trade and monetary requirements, while, in other regions, this process either does not take place at all, or only in lesser degree.

This situation may, moreover, arise in consequence of a permanently unfavorable trade balance. In case this is not offset by a liability balance based on interest on indebtedness, freight-services, etc., the sums which represent the excess of imports over exports must be balanced by money payments. It is exactly this phenomenon upon which is based the theory of the freetraders, to the effect that a permanently unfavorable trade balance, in consequence of the

draining off, into foreign channels, of a portion of the domestic medium of circulation, increases money values in proportion to commodity values, thus increasing the volume of exports and reducing that of imports—which, in turn, brings about a corresponding augmentation of production, thus offsetting the diminution in production due to importation.

The first objection to this theory is that the effects of an unfavorable trade balance, which occur—so it is held—in indirect fashion, through the influence exerted upon money values, are, as a matter of fact, partly prevented by the very fact that, in consequence of the immediate effects of the preponderance of the importation of foreign commodities—reduction of domestic production and of the consumption dependent thereon—importation is restricted and exportation increased, with the result that the trade balance is thus at least partially equalized, although, to be sure, without overcoming the limitation of production due to the preponderance of imports. But even in case the equalization of the liability balance were first brought about through the relatively remote effect exerted upon money values—this would offer no argument by way of proving that the equalization occurs by means of an increase of domestic production. For we have seen that neither the expansion of the volume of exports nor the reduction of that of imports necessarily carries with it the extension of domestic production—that, as a matter of fact, exportation may increase and importation decline at the same time that production remains constant or diminishes. Accordingly, even if one overlooks the fact that a preponderance of imports may be covered by a transfer of a portion of the national property—precious metals, credit instruments, etc.—to foreign countries, or by increasing liabilities; and even if it is admitted that imports and exports must offset one another, if the immaterial or "invisible" imports and exports be taken into consideration,—this, nevertheless, offers no proof that domestic production is not actually reduced in consequence of importation.

The limitation of domestic production, effected by the importation of foreign commodities which are also susceptible of production at home, can be held in check, in greater or less degree, only in case the domestic costs of production of the commodities in question are reduced. In the case of a portion of these costs of production, such

a reduction is not possible. If, e. g., cotton-mills, threatened by foreign competition, seek to cut their costs, they are not in a position to lower the prices of raw cotton, as the price of the latter is unaffected by the question as to whether the demand for quantities sufficient to meet our consumption requirements is evinced by domestic or foreign spinning mills. Nor is the prospect any better for procuring any more cheaply the spinning jennies which are imported from England. There remain, accordingly, only the factors represented by wages and profits. The strongest pressure is brought to bear, of course, upon wages. If weaving mills seek to reduce the cost of production of fabrics, they are able to force down the prices of yarn only in so far as the spinners transfer the pressure to their operatives or reduce their own profits; as for the rest, the weavers too, in turn, can, for the most part, only reduce wages and their own profits. At the same time, it is possible, by virtue of the reduction of the costs of production thus attained, to maintain, to a greater or less degree, the domestic production which would otherwise be suppressed through foreign competition. In this case, instead of the cessation of a portion of the domestic production, there ensue lower profits and wages, and a deterioration in the living-conditions of the workers,—a situation which carries with it more unfavorable working-conditions for the whole branch of industry, serving to diminish the demand, on the part of the operatives, for articles of consumption, and thus to reduce, indirectly, the production of other goods. The process is similar to that which occurs in the case of pressure brought to bear on an industry by a more favorably situated competitor: instead of a sudden collapse, a chronic disease sets in, as it were.

In consequence of the importation of commodities susceptible of domestic production, the sum-total of domestic production is, accordingly, diminished, and economic life thus impaired. This limitation of production is not to be regarded as an economic disadvantage from the standpoint of an abstract striving after the maximum amount of production, but rather from the standpoint of a diminution in the quantity of commodities which is produced by the population and is available for the satisfaction of its needs and for the fulfillment of the purposes of the State.

* * * * * * * * * * *

## XV

## BRENTANO: THE TERRORS OF THE PREDOMINANTLY INDUSTRIAL STATE[1]

* * * * * * * * * * *

GERMAN political economy has for several decades been undergoing a radical transformation. During the last thirty years manifold changes have become apparent in German economic life. The most important of these changes is indicated by the fact that, whereas from its earliest existence up to the most recent times Germany was primarily an agricultural state, during the last thirty years it has been steadily approaching the status of a predominantly industrial state. Such a transition cannot be effected without severe internal struggles. This process is ordinarily accompanied by changes in the political importance of the social classes which play an active rôle in the different economic trades and professions. It is perfectly natural for the social classes which, in consequence of the rapid growth of new classes, are thrust relatively into the background to make every possible effort to retain their influence; it is, in fact, only human for them to be honestly convinced that the very future of the fatherland is threatened by a movement which relatively diminishes the importance of their own rôle, and for them to predict the most gloomy consequences on the basis of the growing strength of their rivals. On the other hand, there is great activity on the part of those who perceive, in the demand of their opponents that the natural course of development shall be opposed, a threat directed against the development of their powers. This situation thus gives rise to the struggle which is being waged so vigorously on both sides.

* * * * * * * * * * *

[1] Lujo Brentano (1844– ), Die Schrecken des überwiegenden Industriestaats (1901), pp. 5–52.

## I

The change which has taken place and is still in progress consists in a transformation in the organization of the German population according to trade or occupation. The German vocational statistics serve to throw light upon this question. If one compares the total agricultural population with that engaged in industry and trade, one finds that of every 100 persons there were engaged:

| | 1882 | 1895 |
|---|---|---|
| In agriculture . . . . . . . . . . . | 48.29 | 41.37 |
| In industry and trade . . . . . . . . | 51.71 | 58.63 |

We see, accordingly, that as early as 1882 it was no longer true that even one half of those who belonged to the three vocations in question were supported by agriculture; by 1895 the share represented by agriculture was only 41 per cent. Since this time the population of Germany as a whole has increased 7.78 per cent: in the predominantly industrial sections, 18 per cent; in those districts which are primarily agrarian, on the other hand, only 5 per cent, showing in fact, in certain sections of the country, an actual decrease. If a new census were to be taken to-day, it would probably show that, at the present time, of every 100 persons belonging to the three vocational classes in question more than 60 are engaged in manufacturing and trade and less than 40 are supported by agriculture.

* * * * * * * * * * *

Not only vocational statistics but, no less clearly, the economic position of the different occupations with reference to one another, and the distribution of income, as well, show that the center of gravity of German political economy is no longer to be found among the agriculturists and the rural population; and our whole financial system is already based on the recognition of this fact. No one, accordingly,—unless he be a pettifogger,—questions the fact that the German Empire is to-day primarily a manufacturing state; and it is precisely this fact which is responsible for the plaintive longing for a return to the organization of the predominantly agrarian state.

## II

But what is the source of this transformation of the German Empire from a state predominantly agricultural to one predominantly industrial?

This phenomenon is the result of the so-called law of diminishing returns in agriculture. It is perfectly evident that a given surface cannot yield an unlimited quantity of produce. But long before the upper limit of productivity has been reached it is found that the increased application of labor and capital to the soil shows a relative diminution in profit. The amount of produce is susceptible of increase, absolutely considered; but every such increase is possible only through a relatively greater application of efforts. The result is that a growing population can be supplied with foodstuffs only at greater expense than hitherto. Temporarily, to be sure, the operation of this law can be neutralized by an improvement in the technical methods of agriculture. Technical progress may make it possible to increase the returns not merely absolutely but relatively as well, that is, in proportion to the investment involved. But such technical progress presupposes conditions which cannot always and at every place be fulfilled. It can take place, accordingly, only to a limited extent; and, even where it does occur, its tendency to reduce expenses is impaired, if not actually neutralized, in consequence of the increase in the price of the chief economic means of production, the soil, due to the increase in population. Moreover, as soon as the technical improvement in question has been effected, the law of diminishing agricultural returns again comes into operation. Every further application of labor and capital to the soil yields, once more, relatively smaller returns. Moreover, there is always a final limit to the amount of produce which a given area can be made to yield. Thus, as soon as the population of a country has reached the point where all the available soil is under cultivation, the crops necessary for supplying this population with food can be produced only at progressively greater expense. In connection with manufacturing, on the other hand, the converse holds true. In this field the chief means of production are represented by augmentable capital. As the most important means of production essential to the manufacture of a greater quantity of commodities can be obtained

at the same price as in the case of the production of a smaller volume of these commodities, the same is true of the products of the industry in question. As the ten-thousandth spinning machine can be manufactured as cheaply as the first, it follows that the thread which it has woven can be furnished at as low a price as that spun on the first machine. Nay, more. The ten-thousandth spinning machine can be produced more cheaply than the first; for its manufacture on a large scale costs less than its production on a small scale, and the larger the spinning machines become in consequence of the increase of the amounts of capital applied to their production, the smaller is the cost of a single spindle. It follows from this that the thread can be supplied at progressively lower prices. The essential costs of manufacturing industrial products decrease, accordingly, in proportion to the increase in the application of capital to their production.

There is thus a tremendous difference between agricultural and industrial production. The principal means of agricultural production are found in the soil. This is available in only limited quantities and becomes increasingly expensive, yielding greater returns, furthermore, —apart from exceptional cases over whose conditions man can exercise no control,—only at proportionately greater expense. The chief means of industrial production, on the other hand, are represented by augmentable capital. These factors can be obtained not only at a uniform expense but at a progressively lower cost; and every additional application of labor and capital in this field yields, accordingly, a greater return. It follows from this that the number of human beings which a country can supply with food is in inverse ratio to the extent to which it devotes itself to agriculture; and this consideration explains the greater density of population of manufacturing countries. Likewise the accumulation of a surplus over and above the amounts invested—that is, the accumulation of wealth—proceeds far more slowly in agrarian districts than in regions which are primarily industrial. It is for this reason that, as soon as the population of a country increases to such an extent that it becomes impossible to produce at home the essential foodstuffs save at exorbitant expense, the country in question turns in increasing measure to industry. In this way it becomes possible to offset the increasingly unfavorable character of the natural means of domestic production, through the importation of the products yielded

by more abundant natural resources. The effects of the limited productivity of its own soil are neutralized by virtue of the means, afforded by the unlimited productivity of the augmentable capital devoted to manufactures, of obtaining in exchange the produce of the richest soil of foreign countries.

* * * * * * * * * * *

The population of the German Empire amounted in 1816 to 24,-800,000 and in 1900 to 56,300,000. The land-area available for the production of the foodstuffs required by a population more than twice its former size has, however, remained practically constant; the price of land has increased, during the century in question, at least three-fold, and in some instances ten-fold; and the yield per hectare has only slightly increased. The result has been that as early as 1852 the importation of rye—the chief agricultural product consumed by the population—exceeded in volume the exportation of this commodity; while as early as the beginning of the seventies of the nineteenth century wheat, barley, and oats began to be imported in greater quantities than they were exported. In the case of all the chief varieties of grain—to say nothing of crops of lesser importance—the excess of importation over exportation dates from a period before the great international grain trade arose. Even at that time, when the prices of grain had reached their maximum and when the population was twenty-five per cent smaller, German agriculture was unable to supply the domestic demand at prices within the reach of the population. In order that the necessary foodstuffs might be obtained, Germany exported industrial products, receiving in exchange the essential supplies of food on such favorable terms as to admit of a rapid increase in its population (whose figures we have given above) and of a greater augmentation of wealth than in any previous period of equal length.

One would suppose that every patriot would find in such a development cause for rejoicing. But it is precisely this expansion which to Oldenberg, Wagner, and other economists is an occasion for anxiety, causing them to forecast the darkest future for their country in case it continues to follow the course upon which it has thus embarked. It is precisely because of this development that they demand an agricultural policy calculated to restore Germany to the status of a predominantly agrarian country.

## III

What is the source of the danger which threatens us in case of further industrial development?

This movement may, to be sure, be accompanied by certain serious subsidiary phenomena.

We have to consider, for example, the unfavorable effects which modern industrial activity may exercise upon the life and health of the workers. And these effects may, to be sure, assert themselves. But preventive measures may be taken to keep them in check; and remedies are available, to neutralize them in case they become apparent. These methods are represented by protective labor legislation and freedom of association. In case these two measures and their administration have been perfectly developed, the position of the industrial workers is more favorable than that of the rural population.

Again, the concentration of great bodies of workers in the industrial centers may result in a scarcity of housing facilities, with all the serious consequences—economic, hygienic, and moral—which such a situation entails. The remedy for this condition is to be found in housing reforms. Such measures should be prosecuted with all possible energy, but no less in the country than in the city.

But these phenomena are by no means the chief objection which is raised. The main difficulty is to be found in the state of dependence upon foreign countries which it is claimed will result from further industrial development on our part. This, it is alleged, will undermine the entire foundation of German political economy. For it is a question whether foreign countries are willing and able to furnish us with their agricultural products, at moderate prices satisfactory to us, and to take our own products in exchange, at prices which guarantee us a profit.

It must be said that this conception of the state of dependence upon foreign nations, in which Germany in consequence of the expansion of its foreign trade may be placed, is to be classed among the most irrational of those illusions which prevail to-day in certain circles. As a matter of fact, however, it would be a question of dependence only in case we were forced to rely for supplies of an indispensable commodity upon a single country, which would be in

a position to refuse to furnish us with this commodity, or else to provide it only upon conditions which we should find intolerable. But there is no commodity to which these conditions could apply. In all other cases foreign trade makes other countries no less dependent upon us than we are dependent upon them. Such dependence is reciprocal. Foreign countries are forced to rely upon us, for the purchase and sale of commodities, in a measure equal to our own dependence upon them. So long as other countries have anything which they desire to sell to us, just so long are they obliged to purchase our own products in return; and the more we concentrate our production upon those fields of industry in which we produce the greatest surplus, the greater the profit which will accrue to us from this international exchange. For in proportion as we do this we obtain the imported commodities more cheaply than we could create them ourselves.

But, we are told, consider the case of Russia! Did it not, a few years ago, issue a prohibition upon the exportation of rye? This certainly tends to show that, if we do not ourselves produce the grain necessary to supply the domestic demand, we cannot always rely upon other countries which shall be willing to provide us with the requisite supply. But this case with respect to Russia proves the very opposite of what it is intended to demonstrate. For, precisely because Russia was primarily an agricultural state, it had nothing, when it was confronted with a failure of crops, which it could export in exchange for the necessary supply of grain, with the result that it faced a condition of terrible famine; whereas it was very easy for us to secure elsewhere the rye which Russia was no longer able to deliver, in exchange for our industrial products. Would one actually wish to subject us again, as during the Middle Ages, to the danger of experiencing, in connection with every failure of crops, such a famine as that which during the last few years has prevailed in Russia?

A further objection is that the countries from which we now import grain in exchange for our manufactures might no longer be able to furnish us with the grain required, owing to the fact that the growth of their population might be such as to make it necessary to reserve their supply of grain for domestic consumption—in which case we should starve. But this objection is in direct contradiction to

the claim of certain others of our opponents, to the effect that very soon such fertile foreign countries would be attracted to the production of wheat that the price of central-European grain would be depressed to 59 marks per ton. Now it is clear that the appearance of one of these dangers upon the horizon completely excludes the other. Our opponents should, accordingly, agree upon one or the other of these two dangers. As a matter of fact, the situation is such that, in the countries which have hitherto supplied us with grain, the lack of adequate labor has caused a large portion of the soil still to remain uncultivated and a further portion to be very inadequately exploited; so that an increase in the population of these countries may be expected to yield progressively larger surpluses available for exportation. Other countries—in fact, whole continents—from which we may expect imports of grain have only just begun to be subjected to cultivation. According to Dr. Kärger's report, Argentina can easily produce 55,200,000 more tons of wheat and 87,000,000 more tons of corn; Australia, which on account of its dryness was formerly represented as unsuited to the cultivation of grain, furnished us in 1899 with 280,716 cwt. (Centner) of grain; the amount which Africa will provide, when it once has been subjected to cultivation, might well be enormous; and agrarian circles are already filled with anxiety with respect to the consequences of the revival of agriculture in Mesopotamia.

But let us consider the chief objection. Would the countries from which we import grain be willing permanently to accept our industrial products in exchange for their grain? North America, it is argued, is no longer willing to do so; a similar attitude is found in Russia; and even Argentina is intent on developing its own industries.

Those who raise this objection may have in mind two different situations. They may mean that in those countries which have hitherto offered us a market for our manufactures industries are gradually developing whereby one German product or another is being rendered superfluous for them. It is unquestionably true that this situation will actually come about. But this signifies for our political economy merely certain displacements in the field of manufacturing. To be sure, such displacements will involve individual producers in difficulties; but this disadvantage is offset by the fact of the advantages which accrue to other producers. So long as our

industrial organization remains sufficiently mobile and flexible for us to devote our productive forces in still greater measure to those fields of manufacture in which we still have the advantage over the countries in question, our economic life as a whole will not be impaired by the necessity for such readjustments. So long as they are intent on selling us their agricultural products they will be compelled to purchase still larger quantities of the products of these branches of industry, in proportion as their purchase of other commodities of German manufacture is reduced in consequence of domestic production.

On the other hand, those who raise the objection in question may mean that the countries which now supply us with agricultural products might eventually prove superior to us in every branch of industry, being in a position to produce every sort of commodity more cheaply than we, and of a quality superior to our own. This situation as a practical case is hard to conceive of, although the advantage that we possess in so many respects is offset by one defect; viz., by our middle-class policy, which, instead of creating a new middle class which shall correspond to our modern conditions of production, aims at the artificial preservation of the old middle class which corresponds to outworn conditions of production, and which accordingly increases the costs of production in all fields of industry. It is especially the greater cost of production of our grain that in many ways offsets our competitive advantage. The new countries which are beginning to compete with us in the industrial field are by no means injured by our middle-class policy—so detrimental to our position in the field of international competition—and quote grain prices very much lower than our own. Let us assume that those countries from which we have heretofore obtained agricultural supplies should prove superior to us in every branch of industry as well. Even in such a case, as Torrens and Ricardo have already shown, they would not cease to purchase from us the products of our manufactures. It would be to their interest to concentrate their energies on the production of those commodities in respect to which they showed the greatest superiority; for, even if they were in a position to produce still other commodities more cheaply than we, they would nevertheless find it cheaper to obtain these products elsewhere than to manufacture them themselves, provided they

were to purchase them from us in exchange for the commodities whose manufacture yielded them the greatest profit. We too should still derive greater profit from such international exchange than if we were to resort to the domestic manufacture of those products hitherto obtained from abroad. But this profit would be smaller than that of the countries whose commodities we should receive in exchange; for we should surrender greater cost-equivalents than we received in return. Whoever finds occasion for anxiety in a future presenting such a prospect should perceive therein an urgent warning to oppose the middle-class policy in question, and especially duties on grain, since it is precisely these factors which increase our costs to such an extent that we are in danger, in our international exchanges, of sacrificing more in the way of expenditures of labor and capital than we receive in return.

But there is no occasion for anxiety on the part of even those who find this line of reasoning too foreign to their way of thinking to admit of its immediate acceptance. For there is still another reason why we need not fear the collapse of our economic life in consequence of inability to export our industrial products. In the first place the demand for the products of industry is increasing to such an extent in the countries which are already civilized that it is still difficult for production to keep pace with it; and, furthermore, the present demand on the part of civilized countries is quite insignificant in comparison with the demand which will arise in future, when those countries which are still uncivilized shall have reached an equally high plane of development. The principal industrial countries which employ machinery are Great Britain, Germany, the United States, France, Belgium, and Holland. In comparison with the volume of exportation from these states, the amount of industrial products exported by other countries is negligible. The population of the countries which we have named amounts to less than 220,000,000, while that of the whole earth is estimated at one and a half billions. On the part of 1,200,000,000 human beings the demand for commodities is only in an incipient stage. Their backwardness in respect to consumption, and the extent to which this is susceptible of expansion, may be most accurately gauged by their use and consumption of iron as compared with its utilization by countries which are more advanced. For the chief demand for iron

is in connection with transportation. The consumption of small quantities of iron points to an inadequate development of trade and transportation, and vice versa. In proportion as there is development in the transportation facilities which require the use of iron, there arises a demand for other commodities, leading in turn to the development of branches of production whereby this demand may be satisfied. If we take the consumption of iron as our standard, we find that it amounts to-day, in the case of the population of more than 1,200,000,000 cited above, to only 11 or 12 pounds per capita; while in Great Britain, France, and Germany it amounted, in 1889, to 175 pounds and in the United States to 300 pounds per capita. In the last-named country it has since risen to 350 and will soon reach 400 pounds; and a similar, if not quite so great, increase is apparent in the European countries in question. Every steamer that calls at the ports of the countries represented by the 1,200,000,000 souls above mentioned and every rail that is laid in their territory serves to increase their needs. With the increase in their consumption of iron rails, tools, and machines their capacity for production and consumption is tremendously heightened. We are witnessing, accordingly, only the first stages of the development of the greater part of the earth through steamships and railroads; and every ton of iron that is used in connection with this process creates a growing demand for iron for some other purpose, at the same time placing the population of Asia, Africa, Central and South America, and Australia in a better position to satisfy its growing needs. This increase in the purchasing-power of a population of more than 1,200,000,000 will inevitably furnish the different branches of industry in those countries which to-day dominate the industrial field with such a demand for their products that they will be able to support a much larger population than their present total of scarcely 220,000,000.

But how will it be when this population of more than 1,200,000,000 commences to manufacture on its own account, in order to satisfy its increasing needs? Shall we be able to compete with it in view of the cheap labor which it will be able to command? By all means; for as long as it is true that—in accordance with the estimate of European observers, confirmed by Japanese experts—the

work of one European is equal to that of three or four Japanese, we need not be alarmed by the "yellow peril"; that is, the lower scale of wages received by the latter. If, now, the productive capacity of the Japanese is heightened, their wages rise in proportion, and the ratio of labor-costs in Germany and Japan remains constant. Whoever, in view of the high cost of labor which prevails in the countries which are to-day most highly developed in the economic field, feels a sense of anxiety with reference to their future, needs but to consider the case of the United States. Wages there are higher than in any of the countries of Europe. But nowhere is the cost of labor, required for the production of a commodity, lower than in the United States. If the scale of wages determined the amount of labor-costs, not a single commodity could be exported from the United States to any of the ports of the world; and yet all the other countries, in spite of their far lower wage-scale, fear American competition.

Indeed, instead of being injured thereby, the population of less than 220,000,000 can but reap benefit from an increase in the productive capacity of the 1,200,000,000 inhabitants of the industrially undeveloped sections of the globe. For in that case they will but receive greater quantities of commodities from these foreign countries in exchange for their own products. It should not be forgotten that trade consists in the exchange of certain commodities for other commodities, only negligible balances being paid in money. If we set no limit to our purchases and consumption of what each section of the globe has to offer, shall we not dispose of progressively larger quantities of our own products in these foreign markets? If we open our own markets to their commodities, shall we not, at the same time, inevitably create in these countries a market for our products? If we develop purchasing-power and the capacity for consumption on the part of Asia, Africa, Central and South America, and Australia by admitting their products to our markets, shall we not at the same time increase to such an extent their demand for our manufactures that the blast-furnaces, factories, and workshops of the population of less than 220,000,000 will soon no longer suffice to satisfy them?

But—reply my critics—such a view leads to a ruthless policy, resulting in conflicts between nations and states, in the interest of

securing markets. This is, of course, perfectly possible; for the countries with whom we shall have to deal, as well as those who are destined to become our competitors, by no means hold the view that the interest of each individual nation is best subserved by peaceful competition in the newly opened markets of the world; and the nations are at this moment once more in such a state of mind that they are led to stake everything on the use of force. Such conflicts are, accordingly, possible, although by no means necessary. But even assuming that we must be prepared to accept such struggles, as an inevitable phenomenon incidental to the necessity of guaranteeing the existence of our population, those who to-day champion the cause of a return to the organization of the predominantly agricultural state are the last whom I should have expected to stress this phenomenon as a reason why the German nation should oppose a policy of expansion. For a hundred years the Germans have lamented that they were at a disadvantage in connection with the parceling-out of the world because during the crucial period they had not been politically united. There is no one who, on the basis of this as a supplementary reason, would have welcomed the foundation of the German Empire more enthusiastically than precisely my present opponents! No one has been more ardent than they in advocating a powerful navy for this new empire in order that it might engage in world-politics and protect its economic interests in all quarters of the globe and on every sea! How often have we heard from their lips the slogan: "We Germans fear God—and nothing else!" And now that we have the opportunity to give practical proof of this and to profit by the political power for which we have so long yearned, are we voluntarily to abandon to other nations that from which we have so long lamented that we have been excluded and faint-heartedly forego even the increase of our population—simply because such an expansion might bring us closer and closer to the status of a predominantly industrial state, involve us in world-economics, and thus impel us toward conflicts with which they associate the gravest and most tragic ethical, human, and social consequences! And this argument is advanced by those who, merely to preserve for the land-owning classes the social and political position which they have hitherto held in the state, do not shrink from the gravest and most tragic ethical, human,

and social consequences—viz., the misery and degradation of the domestic laboring population!

And, finally, we are confronted with the fear of starvation in case of war unless we should raise on German soil all the grain required to supply our needs. This is perhaps the weakest of all the arguments advanced in favor of the primarily agrarian state. For it would be precisely Germany's status as such that, in view of the current military situation, would subject it in case of war to the danger of starvation. I am assuming a war that should last at least a year; although I must admit that I do not believe that it is any longer possible for a war waged on a large scale on European soil to last as long as a whole year, as no nation is any longer able to meet the costs of such a war. But it is proper to consider, in connection with this argument, only a war of at least one year's duration; for if, in case of a war of shorter duration, we did not have a sufficient supply of grain on hand to last us until the end of the conflict, our statesmen, leading diplomats, and military leaders would all deserved to be hanged. Let us assume, accordingly, that it is a question of a war of at least one year's duration and that Germany would be obliged to depend exclusively upon its domestic production of grain to meet its demand for this commodity. Where, in such a case, should we secure the necessary laborers for cultivating the fields and harvesting the crops? A war of a year's duration, in which—in accordance with our presuppositions—we should be surrounded with enemies, would certainly cause every man who, under our present laws, is in any way subject to service, to be drafted into the army,—that is, a total of 10,200,000. How, then, should we be able to cultivate our fields, so as to produce the total supply of grain required? Only weaklings, women, and old men would be available. These, to be sure, represent the resources upon which, according to Tacitus, the old Germanic peoples depended for the cultivation of their fields. Such a situation would, however, for the 56,300,000 inhabitants of the present German Empire, mean practically starvation. And it is precisely the necessity of assuring the supply of the requisite amount of grain in time of war which furnishes the motive for the expansion of our navy.

But let us consider the assumption that the German Empire is prepared to face the struggles which, it is said, threaten us in

connection with the further pursuit of the policy of industrial development and with the effort to obtain world-markets. What, then, is the state of national defense?

The ability of a country to defend itself depends on two factors: first, the availability of the requisite number of efficient troops; second, the command of proper resources for their equipment and support. The number of effectives, moreover, rests on two conditions: the size of the population which the German Empire is in a position to feed, and the number of men available for military service which this population offers. These two coefficients—not simply one or the other of them—determine the number of available troops which the German Empire is able to place in the field. It is not possible to determine the question as to the influence of the vocational factor upon the ratio which the number of available troops bears to the total population, owing to the deficiencies of the material upon which such an investigation is based. Nor have we come any nearer to a decision of this question in consequence of the latest treatise of Bindewald, published in *Schmollers Jahrbuch*, as the field which he has investigated is wholly inadequate, possessing as little typical significance in this connection as does the Old Bavarian field (which has led to precisely the opposite conclusions). Some noteworthy material, however, is to be found in the investigations of the Commissioner of Sanitation, Dr. Elben, published in the *Württembergische Jahrbücher* for 1900, Vol. II, No. 1, pp. 97 ff., relative to military efficiency in Württemberg, which lead to the conclusion that "the frequent assumption that the agricultural districts furnish proportionately more efficient recruits than the predominantly industrial sections is erroneous," and that "the predominantly agrarian or industrial character of the population does not appear to have any characteristic effect upon the military efficiency of the several districts." This conclusion would tend to correct my own expressed opinion[1] to the effect that I was inclined to favor agriculture from the standpoint of military efficiency. But even if this opinion of mine were to find new confirmation in the statistical inquiry finally promised by the Prussian Ministry of War, the question as to whether a country is able to place in the field more recruits

[1] Cf. Brentano and Kuczynski, Die heutige Grundlage der deutschen Wehrkraft. Stuttgart, 1900, p. 32.

under a predominantly agricultural or a predominantly industrial system would have to be decided in favor of the latter. For it is clear that, the larger the population which a country is able to support, the greater is the efficiency of the state from the standpoint of national defense as soon as the point has been reached where the growth of the population is such that, even though the relative efficiency is lower, the absolute number of available conscripts is greater. For it is not the relative number of soldiers (proportionately to the size of the population) but their absolute number which constitutes the decisive factor in time of war. And it is evident that the industrial districts of a country furnish more recruits than the agricultural regions, as industrial districts are capable of supporting a larger population and are hence usually more densely populated than agricultural sections; for which reason the former can place in the field a larger army than can the latter.

Now, how would the desired return to the organization of the predominantly agrarian state react upon imperial finance and hence upon our ability to support our army and navy in time of peace and in war?

Will it be contended that German agriculture, once it has been restored by means of high tariffs to a state of "efficient production," will be in a position once more to assume the chief burden of taxation? Let us take it for granted that those who claim to be unable to subsist without gratuitous contributions from the income of others would, as a matter of fact, be prepared to impose on agriculture—when once this should have recovered its position as the dominant occupation—the correlative duty of assuming the chief burden of taxation. This is, to be sure, a somewhat hasty and irresponsible assumption. But even if it were actually fulfilled, the merest tyro is aware of the difference between the tax-*payer* and the one who bears the *burden* of taxation. Similarly, everyone who gives the matter any thought is aware that, so long as the tax-paying power of the agriculturists rests merely upon the tariffs, whereby an artificial stimulation of grain prices is secured, it is those who pay the increased grain prices who in reality bear the burden of the taxes levied upon the agriculturists. It is precisely this fact which constitutes the most serious aspect of the question of grain tariffs, from the standpoint of political economy.

Let us undertake to make somewhat clearer the financial consequences of the reorganization in question.

It is claimed that agriculture, in default of gratuitous contributions from the net proceeds of the other branches of production, is itself no longer capable of showing any net proceeds. Just as "sacrifices are required to procure everything of value which a nation needs—such as national defense, internal administration, systems of justice and of education, economic supervision, etc."—so the nation must be willing to make sacrifices in order once more to secure for agriculture these net proceeds; and, indeed, it is expected of the other branches of production that they should make an annual contribution of hundreds of millions of marks to the support of agriculture, by means of increased prices based on tariffs. Now, it is an incontestable fact that, if it is only by means of such support that agriculture can be rendered capable of bearing its share of taxation, the brunt of the hypothetical taxation to which it is subjected is not borne by agriculture but by the branches of industry which are required to make the "sacrifice" in question—that is, to make the gratuitous contributions upon which are based the net proceeds out of which the taxes are paid. But how shall these branches of production maintain their ability to pay taxes, in case (1) they are still subject to their former tax-paying obligation, (2) they are obliged to contribute the amounts required for the "productive capacity" of agriculture and its ability to meet its tax assessments, and (3) economic policy is—in accordance with the demands in question—so adjusted that foreign trade "is restored to its former natural basis" and that "division of labor within the limits of the nation is restored" so as to enable agriculture and the agrarian population to offer to the cities and to the industrial workers adequate remuneration and a permanently assured market for their products and services in supplying the needs of the domestic rural population? This whole situation presents internal contradictions against which the very nature of things rebels. Agriculture, in this way, would, to be sure, regain its position as the leading branch of production; not, however, on the basis of its own inherent progress, whereby it should prove superior to industry, but only in consequence of the crippling of industry and trade. And as these are the factors upon whose gratuitous contributions would depend the artificial prosperity of

agriculture, and as these contributions would necessarily cease with the decline of industry and trade, the crippling of the latter would inevitably entail the decline of this artificial prosperity of agriculture itself. The financial effects of the readjustment would, moreover, immediately make themselves felt. With such an agricultural policy, it would no longer be possible to secure the necessary appropriations for even our peace-time military budget, as the annual income of the German people would no longer be adequate to the task. And what would be the situation in time of war? If trade and industry were crippled and the exchanges demoralized, where could the necessary amounts be secured, in case not only the German Empire but also its allies should be obliged to negotiate a loan in the German money-market?

It is recognized that, if German agriculture is to be supported by a yearly contribution of hundreds of millions of marks in order to maintain its "productive efficiency," it would actually be to the financial—and hence the military—interest of the Empire to furnish this support in the form of a direct subsidy rather than to resort to an increase in the price of grain by means of tariffs. While trade and industry would, of course, in this case be obliged to contribute, annually, the sum of many million marks in question, this would nevertheless represent far less of a drain upon them than would a system of grain duties; for this contribution would not impair their market to such an extent as would the latter method, not only as regards foreign trade but especially as regards the sale of products, on a large scale, to the domestic industrial workers, since it is evident that the sale of industrial products must inevitably decline in proportion as duties increase the price of grain and diminish the demand for industrial labor—that is, undermine the purchasing-power of the workers. But this direct support of agriculture would certainly cause the agrarian protective policy to appear to even the dullest in the light of a poor-relief measure; and, above all things, Germany would never, under such a system, be restored to the organization of a "predominantly agrarian state." And as my opponents, in the contemplation of their policy of reaction, have lost sight of considerations of financial and political economy, their attention is at present concentrated more upon this return to the organization of the past than upon any other factors.

We see, accordingly, that the desired reversal to the type of a predominantly agrarian state would not lead to a prosperous development of agriculture but solely to the crippling of trade and industry. It is a destructive policy of hatred and envy, indulged in even at the expense of the military security of the Empire, that is desired.

## IV

Is it necessary to present any further arguments? Is there any further need, after the considerations which have already been adduced, to challenge the desire for an artificial return to the organization of a predominantly agrarian state? The basis of the position of my opponents as well as of my own is the fact of the great size and annual increase of the population. Under a primarily agricultural system the population would either not be susceptible of any further increase, or at least could not increase at the rate which has hitherto prevailed; for, if it increases at approximately one per cent a year, the law of decreasing returns from the cultivation of the soil would preclude the production at reasonable expense, on German soil, of the necessary means for the support of our population on a plane of civilization. Even more marked would be the inability of the state, under this form of economic organization, to make the appropriations necessary for the maintenance and strengthening of the political power required to meet the exigencies of the nation's future. On the other hand, our opponents themselves admit that Germany will be in a position to meet all these demands if organized on a primarily industrial basis. Their anxiety lest the German people may find itself, before long, unable to exchange its industrial products for the agricultural commodities of foreign countries has proved unfounded. The entire controversy would thus appear definitely settled.

But it remains for us to consider the means by which our opponents propose to effect the artificial reversal to the type of a predominantly agrarian state. Nothing is better suited clearly to reveal the "unsocial" character of the policy which they champion than are its effects upon the increase of the population, such as they expect. For the better appreciation of this factor, let us return to a consideration of the chief argument which is adduced for the

purpose of demonstrating the necessity of this reorganization—viz., their fear of the impending industrialization of the whole earth!

Perhaps the greatest scientific achievement of the past century was the discovery of the law of the conservation of energy. According to this law, the sum-total of energy in the entire universe remains absolutely constant; and every process in connection with which energy appears to be consumed is based merely upon the transformation of kinetic energy into energy of position, or of energy of motion into heat, and vice versa. Nevertheless, as physicists proceed to explain, the world is irresistibly approaching its end. While it is easy to convert work into heat, we possess no method whereby we can reconvert all of this heat to work. It follows from these considerations that, every day, more and more of the mechanical energy of the universe is being transformed into heat and that, if this conversion of energy into heat is continued, the universe will eventually become a uniformly heated mass, absolutely useless for the further performance of work (as this presupposes changes of temperature) and hence wholly unsuited to support organic life.

A sad prospect this, which the natural scientists unfold to the vision of mankind! But nevertheless we eat and bathe and wash our clothes and other utilitarian articles, although in so doing obvious motive power is transformed into heat, which is then dissipated. We nevertheless go walking, although it is impossible to reconvert the heat, so generated, into work. We nevertheless continue to operate machines, in spite of the fact that not only every motion but even every cessation of the movement of a machine generates heat, which cannot be transformed again into work. And yet every movement—since it is converted into heat, which is only partly reconverted into energy, the rest being dissipated—brings us nearer to the end of the world! At the same time, I have never met a single scientist who, in order to delay the future destruction of the world, would recommend stagnation—that is, the death—of present activity.

But this is precisely what scientists would have to do, if they were to proceed in harmony with the program of my opponents. For the latter recommend that the German people commit suicide, in order that it may not run the risk of being killed! What is it that they seek to teach us? The predominantly industrial state, they

admit, is in a position to support the German people, even if it should continue to increase at the rate which has hitherto prevailed. But for how long? The other nations of the earth will gradually come to produce themselves the industrial commodities required to meet their needs. They will then cease to exchange their agricultural products for our manufactures. Meanwhile the German population will have increased to the point where its own soil will no longer be able to produce the required amount of food. The people of Germany will then perish in misery. The alternative is, to return to the model of the primarily agrarian state. This economic organization will meet our increasing food requirements only on increasingly rigorous terms. The result is that the position of the population is now less favorable—so much so that "Malthus is right," and the rate of increase of the population is retarded. In other words, let us bring upon our people at once the misery which we fear will overtake them in the future.

To be sure, not all of our opponents have always regarded the rapid increase of our population with such anxiety. It was only on the 27th of January, 1900, that Adolph Wagner, in his address delivered in the auditorium of the University of Berlin, on the subject "Transition from the status of a territorial state to that of a world power," spoke in a tone of joyous exultation of Germany's astonishing increase in population, as a token of the progress which Germany, under the leadership of Prussia, had made during the nineteenth century. In this address there is no mention of the necessity of returning to the status of a predominantly agricultural state: on the contrary, quite the opposite is suggested. Even though there is a reference to the restrictions necessarily placed on the development of the manufacturing state, this statement is immediately followed by the assurance: "As regards the present and the visible future, the thing required to continue, temporarily, our increase in population is the continued development of our economic system along the same line, making allowance for the necessary restrictions required in the genuine interest of the nation by the exigencies of our domestic agriculture. Due account must be taken of the latter requirement, in determining our economic and commercial policy, and obviously we must continue to develop our power on sea and land." Although there is a certain element of obscurity in this

passage, which may possibly serve to nullify the import of the rest of the statement, it is nevertheless true that there is not the slightest suggestion of anxiety as regards the consequences of further development as a manufacturing state and of a rapid increase of the population. The watchword is, rather, continued progress in the same direction, the more academic part of the address closing with the admonition: "Away with pessimism and timidity!" While Wagner at an earlier date had, to be sure, favored a treatment of the subject similar to the pessimistic conclusions which in this address he opposes,—viz., when presented by Oldenberg, at the Evangelical-Socialist Conference,—this position, as reflected by his own independent declarations, dates only from September, 1900 (cf. Lotse). Since this time the further development of the reservation, just touched upon, relative to agriculture has resulted in his championing a reversal in the economic organization of the German Empire to the status of a predominantly agrarian state, and has led him to oppose a rapid increase in the population.

One thing must be admitted: if one regards the transition from a predominantly agricultural to a predominantly industrial type of state as disastrous to the welfare of Germany, the increase in population which has necessarily brought about this transition must be looked upon as the root of all evil. This being granted, consistency requires that this increase should be opposed and that measures should be demanded which shall either check this expansion or at least retard its rate.

But how is it proposed to effect this diminution in the increase of the population, by bringing about a deterioration in the position of the people? It may be accomplished in two ways: by diminishing the birth-rate and by increasing the death-rate. With reference to the birth-rate—that is, the number of births for every one thousand inhabitants—Adolph Wagner asserts that the ratio among the different nations of the world remains, on the whole, constant. It thus becomes evident that those who desire to retard the increase in the population have no alternative but to increase the death-rate. And, in fact, they do not regard its diminution as an unalloyed blessing, as it rests, in their opinion, mainly upon the decrease of infant mortality and the reduction of the death-rate among the aged. This, they hold, places a heavier burden upon the adult

population, subjecting to greater pressure the productive and acquisitive elements.

In this connection I would call attention—albeit with some hesitation—to the fact that a reduction of infant mortality means a tremendous saving in the way of economic sacrifices and an enormous diminution in the useless expenditure of power, labor, and capital; for, in dealing with this question, economic considerations play so insignificant a rôle in comparison with ethical factors as to be scarcely worthy of mention. But if one chooses to view the question from the economic standpoint, it must be said that it is in fact only the prolongation of the life of the aged that places an appreciably greater burden upon the productive members of society. How proud we have been that by virtue of economic and hygienic progress we have been able to lengthen the span of life of the German people! While the birth-rate fell from 42.61 per thousand, in 1876, to 37.11 per thousand, in 1899, the death-rate declined, during this period, far more perceptibly: it was reduced from 30.62 in 1872 to 21.78 in 1898 and 22.68 in 1899. The colossal increase in our population during the last few decades is thus due exclusively to a lower percentage of mortality. Any attempts to effect, by means of increasing the price of the necessaries of life, a diminution in the rate of increase of the population must, accordingly, aim at the nullification of this progress. How enthusiastic the laboring classes will be at the prospect of higher duties on grain when they learn that this measure is to be used to bring them nearer to the grave! Truly, I am unable to comprehend why we should have introduced, during the eighties, a system of old-age and invalid insurance, if this is to be the aim and object of our endeavors. On the other hand, I now understand the idea, which has arisen among the advocates of levying duties on foodstuffs, of placing the revenue which accrues therefrom at the disposal of the system of widows' and orphans' insurance.

At the same time, those who advocate this policy assure us that they are by no means indifferent to the unspeakably tragic aspect of the method by which they seek to create the predominantly agricultural state. And they are, in fact, such excellent and eminently ethical men that I am firmly convinced of the sincerity of these assurances of theirs. But the very fact that they resign themselves to the inevitableness of the method by which they propose to

attain their purpose shows to what extent their minds have been beclouded by the contemplation of their aim, which has made it possible for them to suppress the soundest perceptions and sensibilities which they possess. They seek to justify themselves by pointing out that it is not a question of the size of the population. Never—so they argue—could we hope to compete with Russia, America, or China in this respect. But the fate of China—which, by the way, represents the purely agrarian type of state—shows clearly how vastly superior the quality of a population is, as compared with mere quantity. They emphasize, accordingly, the importance of quality versus quantity, and hence of diminution of quantity in the interest of improving the quality. The type of people distinguished for their superior quality, they contend, is that which devotes itself to agriculture. The method whereby this quality may be preserved and enhanced is, they admit, rather rigorous, but represents the only available remedy; and, just as a people is willing to make sacrifices for the sake of securing everything worth while—such as justice, governmental administration, national defense, etc.—so it must be willing to make some sacrifice in the interest of maintaining this specially superior type of population, even though the price paid is want and misery whereby the merely quantitative factor is eliminated.

Germany's future, accordingly, rests on the production of agricultural supermen by means of increased infant mortality and the elimination of superfluous old people, by reducing them to misery in consequence of increasing the prices of foodstuffs!

According to the latest statistics for the German Empire, this country has, next to Russia, registered the greatest increase in population of any country in Europe. With its annual birth-rate of almost two millions, its population is augmented every year to the extent of approximately 800,000 souls—that is, the rate of increase is twice that of Great Britain or Italy, three times that of Austria, and four times that of Hungary; while in all the other countries the excess of births over deaths is less than 100,000 souls. As compared with Russia, Germany has the advantage that the increase of its population is attained without the sacrifice represented by Russia's high rate of mortality, and proceeds less irregularly. This has hitherto been to us a source of pride; for in this great expansion, achieved in conjunction with a decreasing birth- and death-rate, as

in the great augmentation of national wealth by which it has been accompanied,[1] we have perceived an assurance of sound development and an economic and political guaranty for the future. According to those who interpret the transition to the status of a predominantly manufacturing state in terms of a national calamity, this phenomenon has been an illusion. Our future appears to them to find a safer guaranty in a less rapid increase of wealth and population; and it is for this reason that they advocate a return to the organization of the predominantly agrarian state.

[1] According to the income statistics given above, this increase in wealth has by no means been confined to the cities. In the cities of Prussia the assessed income rose, from 1892 to 1900, 42.1 per cent, while in the country districts the increase, while not so marked as in the cities, amounted to 27.8 per cent; similar figures are available for Saxony.

# XVI

# MARSHALL: THE FISCAL POLICY OF INTERNATIONAL TRADE[1]

## PART I. THE DIRECT EFFECTS OF IMPORT DUTIES

### A. THE PROBLEM CAN BE PARTIALLY SOLVED BY A SIMPLE STUDY OF PRICE MOVEMENTS

THE first issue to which my attention has been called is the incidence of import duties. It is my opinion that, in nearly all important cases, they are borne almost exclusively by the consumer. But there is no absolute rule in the matter. Cases can be conceived on a large scale, and have actually existed on a small scale, in which a perceptible part of the burden of an import duty is borne by foreigners. And, of course, a part of the pressure of every new tax of whatever kind is apt to rest temporarily on producers, merchants, shippers, and others; until they are able to shift it to its permanent resting-place on the shoulders of consumers.

2. The problem cannot be completely solved by a mere study of price movements. That indeed seems to show that the consumer must necessarily bear the whole burden of every such tax, together with the profits on it of each stratum of traders through whose hands it passes. But the *primâ facie* case thus made out is not valid, at all events in relation to a system of import duties in contrast to a single duty.

The *primâ facie* case is this:—As a general rule the exporters are indifferent as to the market to which they send their goods; and select that which will yield them the best price after paying all the costs. If, therefore, the cost of delivering any commodity in a certain market is increased by the levying of an import tax of 1 *l.*

[1] Alfred Marshall (1842– ), Memorandum on the Fiscal Policy of International Trade (1903). (Pp. 3–8, 11–20, 22–29, of 2d (1908) ed.)

upon it; exporters will avoid that market until, by making the commodity scarce in that market, and rather more abundant than before in other markets, they have raised its price (duty paid) in that market by 1 *l.* relatively to its price in other markets in which there has been no new tax. The ultimate consumer may, therefore, be expected to have to pay this 1 *l.*, together with profits on the extra capital required for moving the taxed commodity by all the dealers through whose hands it passes on its way to him. And price statistics show that he has to do so, if he has no alternative source of supply.

3. This *primâ facie* case for the conclusion that the *whole* burden of an import tax is *always* borne by the consumer is invalid, because it neglects the fact that the purchasing power of money in any country may be affected by its tariff policy. For taxes on certain imports into a country raise their value in that country relatively to things which are not taxed; and one of these is gold. Therefore the purchasing power of gold is generally low in a country which levies many high import duties; and when we know that a certain fiscal policy has raised the price of any given commodity to a consumer by, say, a quarter, we have not got an answer to the question how great the burden on him really is.

4. It is, however, important to remember that, if the taxes affect a small portion only of the country's imports, they will not cause an appreciable substitution of gold and other untaxed imports for taxed imports; that is, they will not appreciably alter the general level of prices. The taxed commodities will cost more money to the consumer (near the frontier) by the full amount of the tax; and this increase of price will indicate a nearly corresponding increase of real cost, because the value of money will be but little changed.

5. There are, moreover, other difficulties besides that connected with changes in the purchasing power of money, which resist the endeavour to decide by direct observation what is the incidence of import duties.

For instance, improvements in production and transport are constantly raising money incomes relatively to prices; and if the influence of such improvements is being felt in the same decade in which a tariff is raised, the rise in money incomes relatively to prices may be considerable; and yet it may be much less than it would

have been if the tariff had not been raised. No doubt the influence of this disturbing cause can be partly eliminated by comparing the movements of incomes relatively to prices in countries in the same industrial phase, whose tariffs have not moved in the same direction. But, not to mention the difficulties of obtaining such statistics, they cannot be interpreted without taking account of the different influences which are being exerted in different countries by education, by wise and thrifty household management, and by the development of latent natural resources through the spread of railways and otherwise.

The question cannot be handled effectively except by a study of those causes of causes on which this Memorandum touches but slightly. All that can be done here is to indicate that a country cannot expect to throw any considerable share of the burden of her tariff on other countries, unless she is in a position to dispense with a great part of the goods which she imports from them; while she is at the same time in the possession of such large and firmly established partial monopolies, that those countries can not easily dispense with any considerable part of their imports from her. So far as the latter condition is concerned, England was in a strong position early in last century. But not even America is in a strong position now; while England and Germany are, as it seems to me, in weak positions.

A thorough answer to the question can be found only by going back to the great truth which Committees of the House of Commons at the beginning of last century investigated, and which was stated forcibly by Ricardo. It is that gold is a mere commodity in international trade; and that the levels of international prices do not govern the course of international trade, but are governed by it. Reasoning on this basis is troublesome; and the difficult argument which follows under head (B) is not essential for the main purpose of this Memorandum. A résumé of it is given in § 55.

## B. A PARTIAL THEORETICAL SOLUTION OF THE PROBLEM OF THE INCIDENCE OF IMPORT DUTIES

6. Suppose two countries, A and B, to trade with one another, and only with one another; and to levy no taxes on imports. The price of A's goods in B will differ from their prices at home only by costs of transport (including costs of handling), and *vice versâ*.

But now A puts a tax of 50 per cent. on all imports, except of course gold. The prices of A's goods will still be higher in B than at home merely by the cost of carriage. But the prices of B's goods to consumers in A are now bound to rise 50 per cent. relatively to their level in B: for, unless and until that happens, it will answer to send gold instead of goods from B to A. This rise in price of B's goods in A relatively to their price in B takes place whatever be the urgencies of B's demand for A's goods, and of A's demand for B's goods. But it is mainly on the urgencies of these reciprocal demands that the incidence of the tax depends; and the observed price movement, *taken by itself*, proves nothing conclusively.

7. The burden of these taxes will be thrown mainly on B in the exceptional case in which B's demand for A's goods is very urgent (and inelastic) while A's demand for B's goods is not. For then the tax will first raise the price of B's goods in A; secondly, diminish their sales there a little; thirdly, lessen the supply of A's goods in B a little; and since B's demand is inelastic, the small check to their supply will cause each of these goods to be disposed of for a much greater quantity of the labour and general commodities of B than before. It might conceivably exchange for just double as much as before of B's goods in B, or *in bond* in A; and therefore for just as much as before *duty paid*. In this case, the whole burden of the tax would be thrown upon B.

Here the solution of this particular case ends, so far as essentials go. But its secondary consequences in terms of price movements should be added. Since A's goods can be disposed of in B's markets on such favourable terms, gold will be sent from B to buy them. Therefore, gold will become very plentiful in A; prices generally will rise there, and a rise in money wages will follow in due course. Therefore, though B's goods in A sell for twice the price they do at home, yet their prices will not represent much more effort than before; they may not represent any more effort at all. In B, on the other hand, gold will have become relatively scarce, and will command more of B's goods and services than before. Therefore, although A's goods sell in B for only their price at home, together with cost of carriage, yet their real cost to B will be very much increased. The consumers in A will be nearly as well off as before, and their Government will have got the taxes mainly at the expense of B.

8. On the other hand A will have to bear the burden of her own taxes in the far more probable case in which B is in no urgent need for her goods. For then, when the merchants slacken their deliveries of A's goods in B, the market will be unresponsive. Each bale of A's goods will bring back about as much of B's as before. A day's labour in A, or a bale of A's goods, will command about as much as before of B's goods in bond, and the taxes on B's goods will be paid in the main by those who consume them in A. In this case there will not probably be any considerable movement of gold, and the *primâ facie* suggestions of price statistics will correspond pretty closely to the actual facts.

This assumes that A's demand for B's goods is elastic. For the sake of completeness, however, it may be well to take an improbable case corresponding to that in § 7; but with the parts of A and B inverted: and we may even suppose A's Government to spend a great part of the taxes in purchases of imported goods. Then the private consumers in A being in urgent need of their old supplies of B's goods, they may have to force the trade, and to accept less and less of foreign goods in return for each bale of their own: so that A may ultimately have to bear even more than the whole burden of her taxes.

9. The two countries A and B, being taken to be shut off from all trade except with one another, it is *primâ facie* not altogether unreasonable to suppose that B's demands for A's goods are somewhat urgent; and that, therefore, the burden of the taxes will fall in a considerable measure on her. But in the real world B always has access to other markets, and therefore she will not consent to pay any of A's taxes unless A has something like a monopoly as regards nearly all her exports; or else, from geographical or other causes, B is very much at A's mercy. It is only under very rare conditions that a country is practically the sole market for even a single product which another country has exceptional advantages for producing. A tax on such a product might indeed rest permanently on the producers; but taxes on other products would nearly always be borne wholly by the consumers as soon as the producers could make arrangements for selling in other markets, either their old products, or others to which they could gradually divert their energies and resources. It is theoretically possible that, even in

the absence of such a monopoly, A's taxes might permanently lower the price of B's goods in world markets; and therefore in bond in A's ports. But in fact this never does occur on a considerable scale in the modern world, for reasons some of which are indicated later on.

## C. A BROAD TREATMENT OF SOME REPRESENTATIVE CASES

10. The effect of an import duty is felt in the first instance at the frontier. If the commodity is bulky, it may very well be imported in spite of a heavy duty, and yet be sold in other parts of the country at a low price. To take a strong instance, timber is sometimes almost without value on the Pacific slope, while in other parts of the United States its price responds to taxes on importations from Canada. But in countries no part of which is far removed from the frontier suitable for importation, such as the United Kingdom and Belgium, the full effect of an import duty is felt by nearly all consumers even of commodities as bulky as wheat.

11. Again, it is not denied that exceptional geographical causes may put a country very much at the mercy of a stronger country which lies between it and the main movement of the world. Possibly Germany, and even Austria-Hungary, may be able to throw a small part of the burden of their import duties on countries lying to the east of them. And yet Germany cannot throw on England any share of the burden of her own import duties; even though there are a few chemical and other German products, which England cannot easily forego. England can always take these as her first choice, and for the rest of her trade Germany must force her way with goods which England has no special reason for obtaining from her rather than from other sources. And what is true of Germany with regard to England is true of England with regard to the whole Western world. There may be some small markets in which her connections by steamship or otherwise give her an advantage tending towards a mitigated monopoly. But in the aggregate they count for little. There is thus no considerable exception to the rule that England has now to pay the burden of her own import duties.

12. There has, indeed, never been a country, the whole of whose exports were in such urgent demand abroad, that she could compel

foreigners to pay any large part of any taxes which she imposed on her imports. But England's exports approached to it twice. Once they consisted chiefly of wool, which was indispensable to Flemish weavers. And again, in the first half of the nineteenth century, they consisted chiefly of manufactures made by steam machinery, which was not in general use anywhere else; together with tropical products, which she had special facilities for obtaining. It is possible that the rest of the world would have given twice as much of their own goods as it did give for many of them, rather than go wholly without them. As it was, England did no doubt throw a considerable part of the burden of her taxes (import and export) on the foreign consumer: though it may be true that she made her taxes (or prohibitions of import) heavy just where they ought to have been lightest; that she thus checked that growth of the vitality of the masses of her people, which ought to have resulted from her new command over the forces of nature; and hastened the day in which she would cease to hold the unchallenged leadership in industry.

13. But any powers which she may have had of throwing a considerable part of the burden of her import duties on foreign consumers of her products has been destroyed by two inevitable causes. Her arts and resources of production have become the common property of all countries of the Western world, and in some important cases have been developed by others faster than by herself; and the growth of her population has made her demand for many of her imports more urgent than is the demand of any other country for any of her exports. In this respect she is, however, not in a much weaker position than Holland and Belgium and Germany, as will be argued later.

14. I assume that we are concerned with settled trade relations, and not with exceptional or temporary incidents. Almost every trader has opportunities of springing hard bargains upon particular customers, who have made their plans on the expectation that he would deal with them in a regular manner. Such undignified action brings its own nemesis. But practices which would be thought bad business as between individuals have been suggested in the present controversy as appropriate for international trade policy; and it may be well, therefore, to state clearly that I do not deny that small gains may be snapped by sudden import duties.

15. For instance, if a country is the chief purchaser of an important speciality for which a second has exceptional advantages, then an import tax on it would be borne in the main by the producer for some considerable time. This might occur in the case of a tax levied by England on Greek currants, or on some classes of heavy wines. There is no important commodity the supply of which is in this position. But, as we shall see presently, the collective relations between those countries which are large exporters of wheat, and those which are large importers of it, have some peculiarities.

16. Similarly if manufacturers in any country have adapted expensive plant to the needs of a particular foreign market, they may pay nearly the whole of an unexpected tax levied on their goods there; for it is better to work with but low returns on their investment than to let their plant lie idle. Conversely, if a tax on the importation of certain goods is suddenly removed those producers whose plant is specially adapted to those goods may be able to add nearly the whole amount of the tax to their price; and may thus reap very high profits, until new plant is ready to meet the increased demand resulting from the cessation of the tax.

* * * * * * * * * * *

## D. ILLUSTRATIONS FROM RECENT GERMAN HISTORY OF THE EFFECTS OF HIGH TARIFFS ON THE PURCHASING POWER OF MONEY AND WAGES

18. Of course a small change in a country's fiscal policy will not materially affect the purchasing power of money in it. Therefore if the imposition of a tax on any minor import raises the price of it to her consumers by the full amount of the tax, relatively to the price at which it is to be had in other countries that have made no such change; then it may be concluded that the full burden of that tax falls on the consumers, until it is shown that the general purchasing power of money in the first country is lower than in the second. The *onus probandi* lies on those who urge that it is lower.

19. There are, however, reasons why those who advocate a "protective" policy should be unwilling to lay stress on the undoubted fact that the general purchasing power of money is low in countries with a high protective tariff. For this fact cuts two ways.

On the one hand, it does mitigate that extra burden that a country seems to take on itself by any new import duty which raises the price of a commodity by a given sum of money. But, on the other hand, it calls for a similar deduction from any *primâ facie* statistical evidence that may be offered of the prosperity of the country with the high tariff. The advocates of the high tariff gain a little by dwelling on the connection between high tariffs and high prices: but they lose a great deal.

20. This may be illustrated by the effects of that movement towards high tariffs which set in twenty-five years ago in Germany. In the preceding, comparatively free trade period, it was reckoned that the purchasing power of money was two-thirds as high again in Germany as in England. (The common way of putting it was: "a thaler equals 5 fr., which equal 5*s*.") I took considerable pains to verify this statement; and I found it to be approximately true, even after allowing for the fact that many comforts and minor luxuries had then to be bought either from England, or from world markets which were largely under English influence. Many of these things are now made with as good appliances in Germany as in England. Further, German and Alsatian iron ores have been made effective by modern processes applied with consummate technical skill, and Germany is now abreast of England in the mastery of steel, which is the master of the world.

Thirty years ago it used to be said that in active occupations an Englishman could generally do as much in one hour as a German in one and a half. But since then the levelling up has been almost incredible to any one who has not watched it step by step; and now the difference in effective value between the hour's work in the more progressive parts of Germany and the English hour's work is relatively small. Although by far the greater part of this progress is unquestionably due to education, to improved food, and to improved domestic economy; yet it may perhaps be conceded that a small part of it is due to the defence which the German protective tariffs gave to weak nascent industries against the invasion of the more mature and stronger industries of some other countries, and especially England.

But granting this, it yet remains true that undiscriminating import duties, imposed to gratify powerful interests, and not needed

to protect any nascent industry, have (partly, indeed, by strengthening cartels or trade combinations) so raised prices against the consumer, that the real wages of the German workmen have risen less rapidly than those of the English. Money wages in the more progressive parts of Germany have probably risen rather faster than in England; though, save in the heavy iron industry, the condition of which is temporarily exceptional, they still lag behind. But the prices of the necessaries of life have risen, while those in England have fallen; so that 6 marks—instead of 3, as was the case 30 years ago—are required, I believe, to purchase as much of them as 5*s*. do in England now [1903]. In spite of Germany's vast technical advances, in spite of the growing energy of her people, in spite of the development of German iron ores—while those of England are running short—I believe it to be true that the real wages of the German are increasing less rapidly than those of the Englishman; and that if Germany abandoned protection, which has now no considerable service to render her, the wages of the German would rise a great deal. To hazard a bold guess, I should expect them to rise by about a fifth.

* * * * * * * * * * *

## Part II. England's Fiscal Policy considered with Reference to the Economic Changes of the Last Sixty Years

### F. England's Fiscal Policy assumes the Relative Maturity of her Industries

* * * * * * * * * * *

31. The principles on which our present fiscal system was based sixty years ago seem to me to be not ultimate, but derivative. They were obtained by applying certain truths, which are as universal as the truths of geometry or mechanics, to certain conditions which were transitional. If these principles are converted into dogmas, the same error is made as if the rules laid down for building a bridge, when the only materials available consisted of pine logs, were regarded as sacred dogmas governing for ever the construction of bridges for purposes, and under conditions of which the original

builders had never dreamed, and when the materials to be used were steel or granite. The art of engineering involves an organised study and judgment of the proportions of diverse considerations, tending in different directions; and no one can be certain of getting the right proportions even for the problem which he knows best. It is not by applying without question the judgments as to proportion, which were made by the great men who founded our present system; but by forming our own judgment on the facts of our own generation as they did of theirs, that we can show ourselves worthy to be their followers.

32. Looking back, it is easy for us to see that they made a grave error of judgment as to the proportions of one leading problem of their own age, though not of their own country. They misjudged both the needs and the potentialities of backward countries, and especially of new countries. They assumed that every country which has latent resources and faculties for an advanced industry will attract that industry to her from other countries as easily and surely as one county of England would under like circumstances attract it from other counties. But this is not true now, and it was even less true then.

33. If the neighbourhood of coal and other causes concentrate, chiefly in the middle-west of England, those industries in which man's command over nature is rapidly increasing, the benefits arising from this new power are in great measure spread over the whole country. Those born in Devonshire and Sussex who have a turn for the rising industries, can generally remove to them without snapping their main ties as human beings. But a new country which is dominantly rural, which lacks the stimulus and culture of a nervous town life, and which has no access to the economies of manufacture on a large scale, derives comparatively little consolation from knowing that there are busy hives of industry and thought in remote places.

34. The difficulties of the pioneers of manufacturing industry in a new or even in an old country were much greater sixty years ago than now. It was rather more difficult then to induce skilled artisans of good character to change their homes. More depended on rules of thumb; and less could be done by the quick intelligence of the worker and the scientific and technical studies of the employer. The leaders of improvements now are often not machine-users, but

machine-makers; and they are always glad to fit up new works with better appliances than the average of those which are to be found in the chief homes of such machines where some of the plant must be at all events a few years old. But early in last century it was difficult for any one outside a trade to get the best appliances; and if he imported expensive machinery, and any of it was broken by operatives to whom it was strange, he could not always get the repairs made well except in the place from which he had bought it. For the system of interchangeable parts did not exist; and there were no repairing shops, except in England, and perhaps Belgium and France, which were to be compared with those which are now to be found even in second-rate towns in almost every new country. And to these inevitable difficulties there were added frequent applications of the force of large English capitals in underselling, even at a loss, pioneer manufacturers.

35. List and Carey, the great German and American founders of modern protective policy, insisted on two fundamental propositions: one was that Free Trade was adapted to the industrial stage which England had reached, and the other that State intervention was required on behalf of pioneer industries in less advanced countries. Had English Free Traders appreciated fairly the force of the second of these positions, their powerful arguments that Protection was an almost unmixed injury to England would perhaps have been accepted by the whole civilized world. As it was, this, their one great error, put many of the most far-seeing and public-spirited statesmen and economists in other countries into an attitude of hostility to their position as a whole. It has caused, and it is causing to-day, able men to deny, directly or indirectly, economic truths as certain as those of geometry; because English predictions, suggested by this one great error, have proved both misleading and mischievous.

## G. THE BASES OF ENGLAND'S FISCAL POLICY SIXTY YEARS AGO

36. It has been noted that at the very time at which English economists were preparing the way for uncompromising Free Trade, England's exports consisted to so large an extent of things of which she had some partial monopoly, that she might hope then—as she

cannot hope now—to throw on foreigners some perceptible share of the burden of her import duties. It is further to be noted that they did not condemn all import duties, but only those which were levied in an inconvenient way, such as duties on raw material; or were unjust, such as those which pressed heavily on the poor; or, lastly, were *differential*. By differential taxes are, of course, meant taxes levied exclusively or with special weight on commodities which are produced in certain places or by certain methods, or are imported by certain routes or in certain ships; while other commodities, capable of serving more or less well the same needs, are treated differentially, and escape the tax in whole or in part.

37. They objected to a differential tax that it set consumers and traders on evasions, either by substituting for the taxed commodity some other which was less serviceable, but not taxed; or by obtaining the commodity in part from some other and more costly source of supply. In so far as either of these substitutions was made, the consumer was prejudiced, and the revenue gained nothing: it was only in so far as the tax was not evaded that the revenue gained all that the consumer lost—subject only to deductions for cost of collections, &c. They found that in a few exceptional cases, such as tea, coffee, tobacco, &c., there was very little evasion (unless by smuggling), and therefore little waste. But they found by a study of detail, and not by any general or *à priori* reasoning that in the case of all commodities for which the English climate was suitable, or for which inferior substitutes could be obtained, the evasions caused by a tax were very great; the waste was in fact so great as to exceed many times the small part of the burden of the tax which could be thrown upon foreigners. They therefore advocated the abolition of all such taxes as contrary to the principle of economy in taxation.

38. A chief corner-stone of our present fiscal policy is the great truth that the importation of goods which can be produced at home does not in general displace labour, but only changes the direction of employment. Of course, any violent change is, to some extent, an evil; but there is a strong *primâ facie* possibility that if the business men of a country, when left to follow their own judgment, decide that it would be more costly to make certain goods at home than to import them in exchange for other home-produced goods for

which there is a foreign demand, their judgment is right. Unfortunately, however, when those in the industries, with which the imported goods compete, set themselves to persuade the public and Government that a protective import duty should be levied, their private interests are at a great strategic advantage in competing with those of the public. For it is possible to point to the particular places in which additional employment would be given by the tax. It is easy to find out the particular employers and workmen whose profits and wages would be raised by it; to invite the employers to subscribe to a "campaign fund" on its behalf; and to urge both employers and employed to exert all the political influence, direct and indirect, which they possess, in putting pressure on the Legislature in their favour. Good strategy prompts that as much as possible of the argument and appeal in the special interests of any one industry should come, not from those who have a direct stake in that particular industry, but from others who have a "log-rolling" understanding with them. In earlier times, as now, unscrupulous politicians would boast that, by going from one constituency to another, and holding before each a protective duty which would give a visible bounty to a considerable portion of the constituency, they could work up an eager cry for a protective policy, and could thus shout down any arguments based on the general interest.

Those who cared more for the well-being of the masses of the people than for class interests or for political power, found themselves in a difficult position. For, though they knew that such taxes must lessen employment and lower real wages in the aggregate; and that those industries which gained by the taxes would gain at the expense of a greater aggregate loss to other industries; yet they could not always point out the particular industries which would suffer most: while the far more numerous workers, who had nothing to gain by such taxes, had seldom any organisation and were not vocal. Thus the benefits of such taxes, because easily seen and described by persons who could easily make themselves heard, were apt to count at the polling booth and even in the counsels of statesmen of upright intentions, for more than the evils. For those evils, though greater in the aggregate, were less easily seen; and they did not directly appeal to vocal classes.

39. Fortunately for the success of Free Trade, many of the protective duties then levied were ill-chosen; they pressed on raw materials, and thus limited employment in a conspicuous way: and the evils of one of them—that which fell upon the food of the people—were palpable enough. But this accidental gain has somewhat diverted attention from the general argument by which economists proved that protective taxes lessened rather than increased the aggregate employment, wages, and profits. It is, therefore, important to lay stress on that argument.

40. The argument starts from the fact that employment in making a thing is not provided by the mere desire to have it, but by that desire combined with the appliances for making it, and the means of supporting those at work. The older economists expressed themselves badly, and laid too great stress upon the *capital stocks* of machinery, raw material, food, &c.; whereas more recent economists lay greater stress on that *net inflow* of new supplies of food, raw material, machinery, manufactured products, &c., together with personal services which constitutes the national income or dividend. This change of emphasis is very important in some connections, but not in regard to the particular point now in hand. Then, as now, the basis of economic doctrine was that the source of all wages and profits (as well as rents) was in the aggregate efficiency of national production; things obtained from foreigners in exchange for recent exports, or as interest on exports loaned in earlier years, being counted in place of the said exports.

The economists then argued:—

Firstly, whatever increases this total efficiency of production increases that aggregate supply of goods (of past and recent make) which affords employment and income (wages, profits, and rent) to the various classes of the nation.

Secondly, if goods which can be produced at home are yet imported freely from abroad, that shows that they can be got generally at less cost by making other things with which to buy them from abroad than by the direct method of making them at home.

[There may be exceptional cases in which goods are sold with but little attention to cost of production; and there may be other cases when a home industry is temporarily disorganised, and it is

reasonable for the public to incur some sacrifice for its relief. But such cases, because exceptional and on a small scale, have little relevance to this broad issue.]

Thirdly, therefore a tax which puts obstacles in the way of the importation of things, which consumers prefer to buy from abroad, does not enlarge employment or raise wages; it is not in the interest of "producers." It is sure to be in the interest of *some* producers (if among producers are counted landlords and other owners of natural sources of production). But it is sure also to injure other producers more than it benefits the favoured group; because it lessens the aggregate flow of desirable things available as a basis of employment and for distribution among the various classes of the nation.

This fundamental truth is, of course, not inconsistent with the counsel that, as the prudent husbandman puts seed-corn into the earth, so a nation should be ready to sacrifice something of present income in order to develop industries which are immature, and perhaps exposed to the competition of others which are strong. But this counsel had no application to England, because her industries were relatively mature.

41. The founders of our present system had to combat the objection that, though Free Trade might be for the advantage of all nations if adopted by all nations, it was a mistake to open English ports freely unless and until foreigners would reciprocate this generosity. To that two replies were made.

The first was that foreigners would certainly adopt England's policy as soon as they saw how successful it was. The events of the next few years gave some support to this hope. But it was based on a misconception of the position. It ignored the fact that protection to immature industries is a very great national good; and that, though that good may be bought at too great a cost, it would have been foolish for nations with immature industries to adopt England's system pure and simple.

Their second answer was sufficient by itself; and was complete without a flaw. It was that if, in spite of taxes levied by other nations on her goods, she could get them in exchange for her own at less cost than she could make goods like them for herself, it was in her interest to do so. Of course, here again there might be

exceptional cases. It might be possible to retaliate by taxes, a part of the burden of which would be borne by foreign consumers of English goods. But as has already been noted, it was decided not to try for such small gains.

42. A suggestion of more practical importance was that the remission of taxes on goods coming from any country should be made conditional on the lowering of the taxes levied by that country on English goods. This course was adopted in some cases. But it was not in harmony with the large and bold comity, nor with England's leadership in that comity as in industry, which were the glory of the great and noble, if somewhat too sanguine, men who threw England's ports open as wide and as quickly as they could.

43. This decision of theirs has not the strength of a scientific demonstration. It does not rank with their refutation of the assertion that the importation of goods which can be produced at home tends, as a rule, to lessen employment and to depress real wages. On the contrary, it is based on a judgment of relative quantities; and such judgments are at best fallible, even for the time and place in which they are held.

And, further, relative quantities change rapidly even in an age of apparent stagnation; while the last sixty, and especially the last twenty, years have been full of subversive changes. Each age must judge such matters for itself: and none has as yet been called on to judge for itself so independently as that which is now opening out.

## H. TRANSITION TO PRESENT CONDITIONS

44. To any one who approaches with an open mind the fiscal problem adopted by England sixty years ago, there appears a strong presumption that the more perfectly it was adapted to the conditions of that time the more certainly would it fail to meet exactly the widely different conditions of the present time. Even if all the chief forces in operation now had been working then, the great changes in their relative proportions must, it might reasonably be supposed, have called for great changes in the policy designed to meet them.

I for one was so much impressed by those arguments of Carey and his followers, which had found scarcely any echo in English

literature, that I went to the United States in 1875 to study the problems of national industry and international trade from the American point of view: and I was quite prepared to learn, not indeed that the American system was applicable to England, but that it might contain ideas capable of adaptation to English conditions.

I came back convinced that a protective policy in fact was a very different thing from a protective policy as painted by sanguine economists, such as Carey and his followers, who assumed that all other people would be as upright as they knew themselves to be, and as clear-sighted as they believed themselves to be. I found that, however simple the plan on which a protective policy started, it was drawn on irresistibly to become intricate; and to lend its chief aid to those industries which were already strong enough to do without it. In becoming intricate it became corrupt, and tended to corrupt general politics. On the whole, I thought that this moral harm far outweighed any small net benefit which it might be capable of conferring on American industry in the stage in which it was then.

Subsequent observation of the course of politics in America and elsewhere has strengthened this conviction. It seems to me that the policy adopted in England sixty years ago remains the best, and may probably remain the best, in spite of increasingly rapid economic change, because it is *not* a device, but the absence of any device. A device contrived to deal with any set of conditions must become obsolete when they change. The simplicity and naturalness of Free Trade—that is the absence of any device—may continue to outweigh the series of different small gains which could be obtained by any manipulation of tariffs, however scientific and astute.

45. I proceed to consider some of the changes which may be urged as affording a *primâ facie* case for reconsidering the fiscal policy adopted by England sixty years ago. They may be roughly classified thus:—

(i) The increase in the strength and purity of Government in its administrative machinery, and the broadening of the functions which it is expected to perform, and does perform, with general approval.

(ii) The advance of the United States, Germany, and other countries.

(iii) The tendency to an increase in the taxes levied both by old and new countries on the importation of manufactured produce.
(iv) Changes affecting England's industrial leadership.
(v) The growth of powerful industrial aggregations and combinations, fostered by tariffs and other Government favours, whose power to manipulate trade gives cause for anxiety.
(vi) The new possibilities of closer relations between England and other English-speaking countries, resulting partly from the development of electrical and steam communication.

* * * * * * * * * * *

## J. THE ADVANCE OF THE UNITED STATES, GERMANY, AND OTHER COUNTRIES

51. As the United States, Germany, and other countries have advanced in industrial efficiency, their growing wealth has enabled them to consume very largely increased quantities of all those goods which England is specially expert in producing, and also to produce many goods which are serviceable to her either for direct consumption or for use in her industries. Their progress has thus improved her position in many ways, while injuring it in others.

Old countries cannot in any case expect to grow as rapidly as those which are only just beginning to develop some of the best of their resources. Still less can they hope to do so if some of their own best mineral and other resources are running short. By far the larger part of whatever relative retrogression England may be showing, as compared with the United States and Germany, is directly traceable to the recent development of their great resources.

52. The United States present a unique combination of agricultural and mineral riches worked in a temperate climate by a mixture of races of great energy and alertness. The material resources of national prosperity are a good climate and large areas yielding generous returns to labour in the production of staple foods and textile materials, together with coal or water power, and minerals. In all these respects, excepting climate and coal, the United States is incomparably better supplied than England is; and in the earlier stages of nearly every great branch of her production, labour of a

given efficiency will go much further than in England—in some cases more than twice as far. The best English ideas have nearly always been accessible to Americans. When early in the last century England took great pains to prevent the exportation of her best machines, the manufacturers of Europe set themselves to smuggle the machines or drawings of them out of England piecemeal and under various disguises. But the prouder Americans inquired exactly what was the operation which a machine took over from the human hand, and then devised one for themselves; and it sometimes turned out better than the English one. Foreign trade, therefore, is not necessary to the United States. Her domestic trade is larger than that of the whole Western world was when she achieved her independence. Protection could not possibly do her much harm: and it is probable that the help given by her to a few industries, which really needed help, about compensated for the economic loss (but not for the moral injury) caused in other directions by her protective policy.

53. As to Germany, it has been suggested in § 20 that the protective policy to which she has latterly given herself has, on the whole, hindered rather than helped the use which she has made of the high industrial energies of a population very much greater than that of the United Kingdom. If we take coal and iron together, and remember that the very rich beds of inferior iron ore in Luxemburg and Lorraine have been rendered available for making steel by recent inventions; her mineral resources appear about equal to those of this country: and, of course, her agricultural resources are much larger. Her position for foreign commerce is in some respects better than that of England. The ocean routes from her ports are indeed a little longer than those from English ports; but even here there is some compensation, because her ships can make up their cargoes in convenient ports of Holland, Belgium, France, and England. And, what is of far greater importance, she has almost exclusive access to large areas of Eastern Europe which are ready to use Western goods, but are not yet ready to make such goods themselves; and she is able to send light goods to them in through railway wagons cheaply and quickly. In fact, the greater part of the increase in Germany's foreign trade during recent years, of which

much has been written, is with these countries: it is due to advantages which scarcely any fiscal policy could destroy.

54. Germany, like the United States, owes much of her strength to the large population within her own borders, among whom there is absolute free trade. One of the chief causes which retarded her rise was the fact that Prussia, the largest and most vigorous German State, was not a compact unit, but a number of disjointed fragments divided from one another by artificial frontiers. The Zollverein, following an earlier Swiss, and a still earlier French, precedent, was the most important movement towards free trade that the world has ever seen, except the contemporary reform of the British fiscal system. It abolished in every direction artificial hindrances to the "simple" and "natural" tendency of each man to deal with those persons who are best able to meet his wants in return for his meeting theirs. It stopped the laborious passing of goods in bond from one Prussian island to another; it put an end to vexatious inquiries, and diminished the labour of custom-house officers. In short, its influence was largely in the opposite direction to that which would be exerted by the commercial federation of the British Empire; though in many respects similar to that which would be exerted by a commercial federation of Anglo-Saxondom, if that were possible.

## K. THE PRESSURE OF FOREIGN TARIFFS INCREASES WITH THEIR NUMBER, AND MORE THAN IN PROPORTION TO IT. HIGH TARIFFS LEVIED IN THE NEW WORLD MAY ULTIMATELY BE VERY BURDENSOME TO THE OLD

55. In discussing the incidence of a tax on imports in Part I., the keynote of our main argument was that the country B whose goods were taxed would seek other markets for them, until they had risen in value in the taxing country A sufficiently to throw nearly the whole burden of the tax on the consumer. The part which would be borne by the producers in B might indeed be temporarily great if they had made their arrangements specially for sale in A's markets, and in some other exceptional cases. But, as a rule, in the actual world, B would quickly find some other markets for her goods, nearly as good as A's had been before the tax: and she would

have a further resource in directing new applications of her capital and labour to other branches of production for home or foreign markets; and possibly even in diverting some capital and labour, which were already in the taxed industry, to others. There is then a presumption that (save in the exceptional case in which nearly all A's exports have a monopoly value) A's consumers will bear nearly the whole burden of the taxes imposed on B's goods; a burden which could be measured (after allowance for changes in the international distribution of gold, and, therefore, in general prices) by the change in price of B's goods, duty paid, in A's ports, as compared with their price in others where no new tax had been levied. That is to say, it was assumed that A's taxes on B's goods would not exert a very great influence on the value of B's goods in the ports of other countries. For, if A puts a tax on one of B's goods, B can send it to C, D, E, &c., in rather larger quantities, without appreciably glutting their market: or she can send other goods to A or to C, D, E, &c.

56. But the position is greatly changed if A, C, D, E, &c., all put a heavy tax on one of B's goods concurrently. It matters not whether they do it by agreement in a sort of conspiracy, or are merely impelled severally to it by the consideration of their own interests. In either case B must very much diminish her export of it, or else bear a large part of the burden of the tax. And if A, C, D, E, &c., all put heavy taxes on all B's exports, then B is almost sure to bear a large part of the burden. She might, indeed, turn much of her capital and labour chiefly to producing things for her own consumption: but she is almost sure to be in urgent need of some imports, and in order to obtain them she must export. If several of her goods are in urgent demand abroad, she may be able to get most of what she wants to import by exporting rather reduced quantities of these goods, and only of these goods. Their scarcity will give them high purchasing power abroad, and she will then not pay a very great part of the foreign import duties: though she will, of course, be hampered and inconvenienced in many ways. If, however, she has no exports which approach to a monopoly value abroad, she must turn her attention more and more to providing for home consumption; and she must be content to allow a considerable part of the burden of foreign duties on her exports to enter into the real cost to her of whatever *net* imports she requires. (The foreign raw

material which enters into her exports does not count as an import for this purpose. Nor, again, do those which she draws in payment of interest, &c., on capital which she has already exported; such imports are not affected by the taxes levied abroad on her exports.)

57. England is undoubtedly in a worse position than she would be if the commodities for which she has a special aptitude were not generally liable to heavy taxes abroad. But the taxes on her imports levied by a country in the same industrial phase with herself will always be of relatively small importance to her. It is generally to the advantage of both that they should exchange textiles or metal goods whenever merchants see their way to a profitable exchange. But if England made things for home consumption with the capital and labour with which she makes her exports to (say) Germany, and Germany acted in like manner, neither of them would be seriously injured. To put an artificial obstacle in the way of the trade would be unwise; but its total economic consequences would be small after the immediate effect of the disturbance had passed away.

Nor could England be very seriously injured even by a concurrent imposition of taxes on her imports on the part of all countries in the same industrial phase with herself. She might indeed then be unable to market abroad any great quantity of those refined machines and other implements, for which there is little demand except in highly advanced countries; and, therefore, she would be a little restricted in the economies of production on a large scale in this important group of manufactures. But her own markets would afford scope in almost every branch of such work for several establishments of the largest size which can advantageously be controlled by single management; and therefore her loss under this head, though considerable, would not be very great. She would give more attention to products suitable for sparsely peopled countries; and this would help her in obtaining such crude mineral and agricultural products as she needed.

58. Nor is there any very urgent danger to be feared *in the near future* from the concurrent imposition of heavy import duties on manufactures by sparsely peopled countries. For most of those countries are still in urgent need of capital; and they cannot afford to divert much of it from developing their abundant resources to

setting up modern steel and other industries, which may absorb a thousand pounds worth of capital or more for each person to whom they give employment. Consequently, many manufactured products will long continue to be imported on a large scale even into the more highly developed new countries. And there will also long remain large areas of the world, in which there are no organised industries; and where the door must be kept fairly open to the large majority of Western products.

But the world is being peopled up very quickly. It is but a century since Britain accumulated her great Public Debt: and before another century has passed the scene may have changed. There may then remain but a few small areas of fertile soil, and of rich mineral strata, which are not so well supplied with both population and capital as to be able to produce most of the manufactured products which they require, and to be able to turn to a tolerably good account most of their raw products for their own use. When that time comes, those who have surplus raw products to sell, will have the upper hand in all international bargains. Acting concurrently, whether by mutual agreement or not, they will be in the possession of an unassailable monopoly; and any taxes, however oppressive, which they may choose to impose on the only products which densely peopled countries can offer to them, will be paid mainly by those countries. It is this consideration, rather than the prospect of any immediate danger, which makes me regard the future of England with grave anxiety.

## L. CHANGES AFFECTING ENGLAND'S INDUSTRIAL LEADERSHIP

59. The progress of the arts and resources of manufacture has benefited England more than almost any other country in one important but indirect way. It has so reduced the cost of carriage by land and sea that raw materials and food can come to her even from the centres of great continents, at a less cost than they could come from the near neighbourhood of the sea-shores and great rivers of the Continent sixty years ago; and the 300,000 miles of railways which have been built during the last sixty years in America, Asia, Africa, and Australia are rendering greater service to Englishmen than to

any other people, except those in whose lands the several railways are placed.

In almost every other respect the progress of the arts and resources of manufacture has benefited England less than any other country. For, even sixty years ago, the excess of the cost of the manufactures needed for her own consumption over that of the raw material by which they were made was small. If it could have been reduced to nothing, she would have gained by the change very much less than she has gained by the lowering of the cost of imported food and raw material for her own use.

On the other hand, countries which used to be dependent on imported manufactures have gained all round: they have gained by lowered cost of transport, and they have gained by the lowered cost of manufacture of commodities for direct use; and that almost equally, whether these goods are manufactured by themselves or imported. For competition compels England, Germany, and other Western countries to give to consumers almost at once the full benefit of any economy in manufacturing processes which they have obtained.

* * * * * * * * * * *

Other things being equal, an increase in the efficiency of those industries in which a country is already leading will increase her foreign trade more than in proportion. But an increase in the efficiency of those in which she is behind will diminish her foreign trade.

England has recently [1903] been behind France in motor-car building, and behind Germany and America in some branches of electrical engineering. A great relative advance on her part in those industries would enable her to make for herself things which she had previously imported, and would thus diminish her foreign trade. On the other hand, even a small advance in her power of spinning very high counts of cotton yarn would increase her foreign trade considerably; because that is a thing for which other nations have an elastic demand, and are at present almost wholly dependent on England.

68. England's export trade, though still very much larger in proportion to population than that of Germany and America, is not

[in 1903] increasing as fast as theirs. But this fact is not wholly due to causes which indicate relative weakness.

The chief cause of it is that the improvements in manufacture and in transport, aided by Free Trade, enable England to supply her own requirements as regards food, clothing, &c., at the cost of a continually diminishing percentage of her whole exports. Her people spend a constantly diminishing percentage of their income on material commodities; they spend ever more and more on house-room and its attendant expenses, on education, on amusement, holiday travel, &c. Present censuses show a progressive increase in the percentage of Englishmen who earn their living by providing for these growing requirements. That is to say, the number of Englishmen who devote themselves to producing things which might be exported in return for foreign products increases very slowly. Of course, if her foreign trade be measured by the quantity of things exported and imported, it is increasing fast; for a man's daily labour now deals with a much larger volume of goods in almost every industry than formerly. But still it is not increasing [in 1903] as fast as that of Germany and America. How far is this really an evil?

69. American conditions are very dissimilar to ours. But if anyone compares in detail German and English trade statistics, he will find it difficult to point out desirable foreign commodities with which England is not the better supplied. The earnings of England's capital invested in foreign countries and in ships on the ocean enable her to bring home about a hundred and fifty millions worth of commodities for her own consumption, in addition to those which she buys with her nominal exports. Her people think that these, taken together, are enough; and prefer expensive summer holidays to increasing still further above the German level their consumption of oranges or silk. Who shall say that they are wrong? It is useless to point out things which England might export and does not: unless it can be shown that the extra things, which she would be able to import by so doing, are more desirable than the things and services which she is providing for herself and which she would need to give up in order to make those things for export.

* * * * * * * * * * *

## M. FOR ENGLAND, THOUGH NOT FOR AMERICA, FREE TRADE IS ESSENTIAL TO LEADERSHIP

71. The position, then, is this: On the one hand, England is not in a strong position for reprisals against hostile tariffs, because there are no important exports of hers, which other countries need so urgently as to be willing to take them from her at a considerably increased cost; and because none of her rivals would permanently suffer serious injury through the partial exclusion of any products of theirs with which England can afford to dispense.

And, on the other hand, it is not merely expedient—it is absolutely essential—for England's hopes of retaining a high place in the world, that she should neglect no opportunity of increasing the alertness of her industrial population in general, and her manufacturers in particular; and for this purpose there is no device to be compared in efficiency with the plan of keeping her markets open to the new products of other nations, and especially to those of American inventive genius and of German systematic thought and scientific training.

Further, it is more necessary for her manufacturers than for any others that they should be able to buy cheaply, and without friction, any foreign products—whether technically described as "manufactured," or not—which they may want at any stage of their complex and varied work. This could not be arranged by a system of rebates; not even by allowing special privileges to the "Improvement-trade" (*Veredelungsverkehr*). It would require large classes of factories and workshops to be treated as bonded warehouses. Or rather, it would require the conversion of many manufacturing areas into free-trade zones, each surrounded by a high wall, or a cordon of revenue officers.

In this connection it should be noted that taxes on commodities in general, including those that are free from any differential taint, are likely to press with undue weight on the poorer classes of the community. No doubt there are a few commodities consumed exclusively by the well-to-do, on which it would be possible to levy special taxes. But every attempt to obtain any considerable amount of revenue from this source has failed, and must fail: while it causes much more expense and annoyance to those who are affected by it,

than would be caused by an equal increase in their contributions to such taxes as are levied now. The main bulk of the burden on consumable commodities falls on the poorer classes, for two reasons. First, the poorer classes spend a much larger percentage of their incomes upon commodities than the richer classes do. And, secondly, the greater part of the taxes on commodities must, for technical reasons, be *specific,* that is, apportioned merely to the quantity of a thing of any given kind; and not *ad valorem,* that is, apportioned also to the fineness or high quality of the thing in its kind. Therefore such taxes amount to more shillings for every pound that the poorer classes spend on the taxed commodities than they do for every pound spent on them by the well-to-do.

The injustice of levying a great portion of the revenue by taxes on commodities is most conspicuous with regard to those which enter directly into consumption. But it extends also to taxes on such things as machinery. For the largest ultimate uses of machinery are in the transport by land and sea of those massive foodstuffs and other things which are chiefly consumed by the working classes; and in making the simpler forms of clothing, &c. Probably about twice as much horse power is used in providing for each pound's worth of expenditure on commodities by the poor as by the rich. The great glory of the fiscal policy of the latter two-thirds of the nineteenth century is, that it found the working classes paying a very much greater percentage of their income in taxes than the rich did; and that it left them paying a less percentage. Sparsely peopled countries, and federated countries, are compelled for technical reasons to obtain a large part of their revenues by taxes on commodities. But England has no excuse for that injustice.

72. Though it be true that the import duties of Western nations inflict greater loss on England than they did sixty years ago, it seems that she stands to gain little and to lose much by any attempt to coerce them into lowering their tariffs. Especially does it seem contrary to England's interests to levy import duties with the object of giving English diplomatists something to bargain with when discussing foreign tariffs. English business would be disturbed by the opinion that such a duty was probable; and again by its actual imposition, and again by the probability that it would be removed, and again by its actual removal. It would disturb business in every

way; and it would set particular classes of business men on influencing Government, as it has done in other countries where diplomats are intrusted with a power of this kind. Protective duties are easy to impose, and hard to remove; and the suggested plan would lead to a number of protective taxes based on no scientific system, and conducive neither to the material nor the moral prosperity of the country.

73. But England already grants to every nation with which she deals better terms than that nation gets from any other; and it is not unreasonable that she should demand in return the "most-favoured-nation" treatment. She should regard any refusal to grant it as an act of deliberate commercial hostility, which would justify her in considering whether or not it was worth while to make reprisals. It is, of course, true that the existence of a most-favoured-nation clause sometimes deters an astute German or other diplomatist from pressing for specially low duties on goods in the production of which England happens to have some advantage over his country, and that in that case, England gets no benefit from the efforts of that particular diplomatist. But she is not dependent on any one such diplomatist. Nearly every one who is trying to get any taxes on imports lowered on behalf of his own country, is likely to be working for England's good under this clause, unless he gives himself a great deal of trouble to avoid doing it. The few cases in which he takes the trouble are quoted over and over again in English controversial literature; while little is heard of the far more numerous, cases in which England's masterly policy of quiescence is rewarded by her reaping the fruits of other people's excitements, quarrels, and worries. The clause in fact gives England nearly all that she could obtain by interminable tariff wars, and at no cost.

It might, therefore, be well that every foreign nation should know that so unfriendly and unjust an act as the refusal of most-favoured-nation treatment to England would be regarded as an unprovoked injustice: and that in extreme cases it would be met by hostile reprisals. Such reprisals would be like declarations of war: that is, they would be expected beforehand to be very expensive; and, even if successful, to injure the country which made them, nearly as much as the country assailed by them. They would therefore make use of all the weapons of financial combat, concentrated against the

offenders. It would not be a conclusive argument against any of them that it was inconsistent with the large-minded, generous, and simple principles which have characterised British fiscal policy for the greater part of a century.

74. One further remark may be made in this connection. It is, that there seems to be no good ground for the opinion that foreign imports compete unfairly with British goods in British markets, because they have not contributed to the expenses of maintaining the British Government. But, as was pointed out long ago, this appears to be a mistake. For by far the greater part of these imports are received in exchange for exports of our goods and services; including the services of those most elaborate machines known as ships, and of those highly skilled workers known as mariners. All these exports have paid their share of the expenses of the British Government. That share has entered into their cost. That cost has been defrayed by the imports obtained in exchange for them; and therefore it has been paid by those imports.

It is true that a part of British imports are received as interest, or profits, on capital exported in earlier years: but that capital originally consisted of goods which had paid their share of British taxes. The question whether income derived from foreign investments should be liable to special taxation may fairly be discussed on its merits, but not in this connection: though apparently simple, it seems to involve very great difficulties on closer examination.

## N. TRUSTS AND CARTELS

75. It is, however, urged that special treatment is required for the products of powerful single firms or combinations of firms which, protected by a high tariff, sell at a high price at home, and find additional employment for their workers by producing goods to be sold below cost price abroad. It is further alleged that they can sell such goods more easily in Free-trade England than elsewhere. The economics of industrial aggregation and combination is a vast subject; but I will venture to submit a few fragmentary remarks on it.

76. Speaking generally, American trusts in the proper sense of the word have ceased to exist. What are called "trusts" are single Corporations so vast as to obtain a dominant control approaching

to monopoly in some large branch of industry. They aim at constructive economies, and do not always exert themselves much to keep competition out of the trade; they boast that their large scale of buying, producing, and selling enables them to make a profit at prices which leave no margin for smaller producers. Especially in their early days, some of them appear to have acted cruelly and unscrupulously. But, as a rule, they now avoid action which is palpably against the public weal: and it is rather the fear of what they may do in the future when they are more firmly in the saddle, than of what they are doing just now, which is causing much American thought to be given to the duties of the State with regard to them. The best opinion seems to be that as a Joint-stock Company has less right to privacy than an individual business man, so a Corporation of semi-monopolistic scope may be fairly compelled to make returns to the Government for publication of a kind which it would not be well to demand from an ordinary Company. If those returns tend to show that it is making a bad use of its power, and, in particular, is selling below cost price with the set purpose of ruining rivals, it may be required to level up its prices, or to level them down at its option, to the same amount for the same thing (cost of carriage being allowed for) all over the States. Secondly, it is urged that if a trust sells more cheaply abroad than at home, it thereby proves that it has no right to be defended by a protective duty; and though there are several important trusts which are independent of the tariff, yet the growing power of trusts generally is causing many able and influential persons, who formerly defended the policy of Protection, to turn towards Free Trade.

77. The discussion of the combination policy in Germany, though in advance of that in this country, lags behind that of the United States; but in the main tends in the same direction. The cartels are, however, very different from the trusts. They are federations more or less strongly knit together and not amalgamated. Each firm retains much autonomy, except in the matter of selling, and in some cases of buying. Their constructive economies are not, as a rule, to be compared to those of the American trusts, but they effect important economies in the advertising and distribution of their products; and they are ruthless in restricting their supplies to the home consumer, in order to compel him to pay an artificially high price for them.

The strongest cartels are, as might be expected, in trades which make half-finished goods. They often sell their products to English and other manufacturers at prices which enable the finished product made of them to undersell the German product in foreign markets. This is only one of many instances of the intricacy and friction which their system introduces, and is tending to form a strong public opinion against it. [P.S. 1908. The policy of cartels has become less aggressive towards the foreign producer and less oppressive to the home producer since 1903. The chief causes of this change appear to be (1) the teachings of experience; (2) the rise of a demand for some reduction of the tariff, to which they owed much of their power of oppression; (3) the tendency towards the fusion of groups of cartels concerned with successive stages of the same industrial process into a single cartel; and (4) the growth of giant ("mixed") businesses somewhat of the nature of American trusts. It may even be plausibly argued that just at present the growing strength of trusts and cartels is hostile to the more extreme developments of dumping. But the near future may differ from the present as much as that differs from the near past.]

78. The statement that a trust or cartel can more easily sell surplus goods in England than in any other market *in which it habitually sells* seems only in part true. It may be conceded that if the tax remains fixed in amount, then a given fall in the price of the goods in bond will make a less proportionate fall in their price duty paid than it would in their price where there was no duty, and, therefore, might not stimulate sales so much. But this is a relatively small point, and there seems to be no other difference between the two cases. [This argument would of course be inverted if the practice were to lower the tax on dumped goods in proportion to the special reduction of price made for the occasion. If that practice prevailed, it would render dumping slightly easier into protected markets in which it habitually sells, than into free markets.]

79. Dumping into the English market is annoying to some English manufacturers, while benefiting others in a greater or less degree. But it is hard to devise a remedy that will not be worse than the disease. It is not possible to prohibit all selling below the full normal price; it is not easy to say when such a lowering of the price is reprehensible, still less when it is an offence. English manufacturers,

especially in the iron industry, were for more than half a century by far the chief ill-doers in this direction, and the memory of their ill-deeds rankles sorely in American minds. Even now the accusations levied against some combinations of English shipping companies, not without indirect Government subsidies, are very bitter. And it might be hard to take formal action against foreigners, who were selling cheaply in English markets, without laying ourselves open to very sharp retorts, and even retaliations.

## O. POSSIBILITIES OF CLOSER RELATIONS BETWEEN ENGLAND AND HER DEPENDENCIES

80. It has already been suggested that the import taxes levied by other countries, whether in the Old World or the New, do not at present press on British industries with nearly as heavy a weight as would appear at first sight; but that heavy import taxes levied in the New World may press with almost unbearable weight on later generations of English people (see under head K). We of the present generation have a high duty to our brethren in the Colonies: we have an even higher duty to our descendants. We are exhausting the coal, without which it will be difficult for Englishmen to offer manufactures to new countries on terms that will enable them to be well marketed, even if no import duty is levied upon them. And we are not steadily diminishing that great National Debt, which the forefathers of ourselves and our brethren in the Colonies incurred to secure freedom of the pathways of the seas for British traffic—a freedom, without which we and they might have been continentalised by force.. A part of the descendants of those who incurred this debt are now powerful nations, owning some of the largest and richest landed properties in the world. But they have contributed nothing to the interest of that debt; and they have contributed scarcely anything to the great naval expenditure that has kept the paths of the seas safe for British traffic during the century, in which that debt has remained nearly stationary.

England is still richer than her Colonies. She has, indeed, a larger proportion of very poor people than they have; but she is able, if she wills it, to raise them out of extreme poverty without external help; and her people for the next generation or two will need no

aid. A century hence, however, the tale may be different; two centuries hence it almost certainly will. And a century is but a short time in the life of a nation.

Capital is abundant in England; and she has few openings in which it can be made to yield a high return. Her Colonies are thirsty for capital: and they have vast openings in which it can be made to yield a very high return. It is then perhaps reasonable that she should continue to defend their coasts with but little aid from them, while great wealth is flowing into them, earned partly by the expenditure which has created her debt; but she may fairly expect some response to her generosity.

81. It has often been remarked that the memory of the sacrifices which parents have made for their children when young, is more nearly certain to impel them to make further sacrifices when the children have grown up, than it is to impel the children when strong to make sacrifices for their parents in the weakness of old age: and that what is true of individuals, is true also of nations. England indeed was at one time harsh to the first-born of her great Colonies: but that was in accordance with principles of Mercantilism; which was then already degenerate, though its faults were unperceived by the Daughter as well as by the Mother: and a better spirit has gradually prevailed.

England has never been harsh to any of her younger Daughters. In recent decades she has been increasingly generous to them; and they in return, under the influence of the same warmer and more generous temper, are showing a livelier gratitude and affection for her. If this gratitude and affection are deep-seated; and if the Colonies recognise the great responsibility to future generations of her people which England has incurred by depleting her coal mines, while not reducing her debt: then it will be open to them to give an assurance that they will requite to her people in later generations those services which she has fully rendered to their peoples in earlier generations; and which she is rendering to them increasingly in the present generation, when the powerful battleships of several restless nations are to be seen in the Pacific and the Atlantic Oceans.

* * * * * * * * * * *

82. Among the many changes of the last 60 years, few have been more clearly marked than the advantages which the Revenue officer

has obtained in his struggle against the smuggler. He has gained by general improvements in morale and education; by more scientific and thorough departmental organisation; by submarine and other telegraphs; and above all by the compression of nearly all *bonâ fide* international trade within the limits of a few great ports and a few railway stations. It may therefore be expected that Preferential Duties within the Empire could now be worked with less than a quarter of the abuses which would have arisen if an equally large and complex trade had been subject to them, while the Revenue officer had no greater resources at his command than he had early in last century. But the abuses which caused the abandonment of differential duties by England were so great, and infused so much moral poison into many branches of business, that abuses much less than they might yet count for a good deal in the balance between our present system and one which proposes to cement the Empire by such means. So far as these difficulties are concerned the positions of England and her Colonies seem to be similar.

But in regard to the main issue their positions are far apart. Protective policies come naturally if not necessarily to young countries, which believe that many of their young industries may have a great future, if protected from the competition of powerful rivals in older countries, where capital is abundant and industrial organisation is highly developed. There may be—and in my opinion there are—better methods of bringing public funds to the aid of those who are starting new industrial ventures, the chief fruits of which are likely to be reaped in a later generation and by people who have not borne the main strains and risks of pioneer work. But a protective tariff is the path of least resistance to this end. It is that which is in fact being universally trodden; and a new movement which tempts the Colonies to move a little further on this path, whether wise or not, cannot be a great disaster to them, at all events from the purely economic point of view. But the history of all countries and all ages is repeating itself in the Colonies. Even honourable men there are being drawn into slippery paths. They advocate preferential arrangements effected by raising the tariff against foreign goods without lowering it in favour of British goods; and they put into the forefront their zeal for the high ideal of Imperial unity. They look as little as possible at the private gain which may accrue to them

from the particular method of promoting that ideal which they advocate.

England, on the other hand, is the oldest of all industrial countries. She has no industries which need protection on the ground of youth. But she has a few which have needed a stimulus because they have been sleepy. Under the stimulus given to them by the sale of high-class imported products in their own market, the greater part of these few have been markedly aroused during the last few years; and she might indeed have been seven hundred million pounds the poorer if that stimulus had been shut out by a tariff. Her industries do not need defence against the cheaper capital of any other country. For good and for evil—in my opinion for good on the balance—she has indeed abstained from as rapid a concentration of this capital into such huge masses as has prevailed in America, and even in Germany; but if she thought such concentration good, she could effect it more quickly than any other country except the United States, and perhaps more solidly than any other. In her case, therefore, import duties, levied otherwise than with a direct view to revenue, seem to me to have no economic justification. They cannot, I have argued, cause foreigners to contribute appreciably to her public burdens. Though they may cause new employment to appear in certain directions, they will necessarily lessen the National Dividend; and therefore they will necessarily lessen the amount of employment at good wages.

I believe that they have this effect in every old country, but that there is none other to which they could do injury at all comparable to that which they would do to England. She still has advantages in competition with other advanced countries due to her cheap capital; to her cheap coal; and to her climate, which is conducive to steady work, and is specially favourable to the finer cotton industries. But her chief remaining advantage lies in that unapproached freedom of movement, that *viability* that gives her much of the strength, without the cumbrousness and want of elasticity, of a single huge firm extending over the whole land. In the phase which the twentieth century seems to be opening out for her, viability for all things great and small, that may be needed directly or indirectly for the production of fine and complex goods, is essential to her. Unless she can produce these with less labour than any other country can,

it is in my opinion impossible that she can continue to pay, as she does at present, higher rates of real wages than prevail in any other old country for almost every kind of labour: the real wages of her people must fall to the German level. They might even fall below that; for Germany has advantages of her own. Railways are increasing the economic advantages of her situation in the centre of Europe very fast. Her people had learnt to use their low wages and professional incomes thriftily and wisely, before they came under the temptation to imitate English carelessness in domestic economy; and in this matter as well as in the technical economies of business, they have attained a high scientific perfection from which English men and women are yet far.

The suggestion, then, that England should abandon that viability, which is her chief source of strength in comparison with competitors in the Old and the New World, seems to me a radically bad way towards attaining a good end. In particular there is danger in the fact that in these schemes the gain which either side is invited to expect is greater than the loss which she is to incur; and yet, as the scheme includes differential duties which are essentially wasteful, the aggregate material gain must in my belief be less than the aggregate material loss. The schemes would be less dangerous if they started with the frank statement: "Imperial unity is an ideal worth much material loss; let us consider how best to share this loss among us." As it is, the schemes appear to me likely to breed more of disappointment and friction between England and her Colonies than of goodwill and the true spirit of Imperial unity. And, if approached in a spirit of greed, rather than of self-sacrifice, they are likely to rouse animosity in other lands, and to postpone the day at which it may be possible to work towards a federated Anglo-Saxondom, which seems to be an even higher ideal than Imperial unity.

* * * * * * * * * * *

# PART III

# THE PROTECTIVE CONTROVERSY IN THE UNITED STATES

## XVII

## HAMILTON: REPORT ON MANUFACTURES[1]

* * * * * * * * * * *

IT IS now proper to proceed a step further,[2] and to enumerate the principal circumstances from which it may be inferred that manufacturing establishments not only occasion a positive augmentation of the produce and revenue of the society, but that they contribute essentially to rendering them greater than they could possibly be without such establishments. These circumstances are:—

1. The division of labor.
2. An extension of the use of machinery.
3. Additional employment to classes of the community not ordinarily engaged in the business.
4. The promoting of emigration from foreign countries.
5. The furnishing greater scope for the diversity of talents and dispositions which discriminate men from each other.
6. The affording a more ample and various field for enterprise.
7. The creating in some instances a new, and securing in all a more certain and steady demand for the surplus produce of the soil.

Each of these circumstances has a considerable influence upon the total mass of industrious effort in a community; together they add to it a degree of energy and effect which are not easily conceived. Some comments upon each of them, in the order in which they have been stated, may serve to explain their importance.

[1] Alexander Hamilton (1757–1804), Report on Manufactures (1791). This was a report to Congress by Hamilton as Secretary of the Treasury, in response to a resolution passed in the House in January, 1790.

[2] The preceding sections contain a refutation of the Physiocratic doctrine concerning the superior productivity of agriculture. (Ed.)

1. *As to the division of labor.*

It has justly been observed, that there is scarcely anything of greater moment in the economy of a nation than the proper division of labor. The separation of occupations causes each to be carried to a much greater perfection than it could possibly acquire if they were blended. This arises principally from three circumstances.

1st. The greater skill and dexterity naturally resulting from a constant and undivided application to a single object. It is evident that these properties must increase in proportion to the separation and simplification of objects, and the steadiness of the attention devoted to each, and must be less in proportion to the complication of objects and the number among which the attention is distracted.

2d. The economy of time, by avoiding the loss of it, incident to a frequent transition from one operation to another of a different nature. This depends on various circumstances,—the transition itself, the orderly disposition of the implements, machines, and materials employed in the operation to be relinquished, the preparatory steps to the commencement of a new one, the interruption of the impulse which the mind of the workman acquires from being engaged in a particular operation, the distractions, hesitations, and reluctances which attend the passage from one kind of business to another.

3d. An extension of the use of machinery. A man occupied on a single object will have it more in his power, and will be more naturally led to exert his imagination in devising methods to facilitate and abridge labor than if he were perplexed by a variety of independent and dissimilar operations. Besides this, the fabrication of machines in numerous instances becoming itself a distinct trade, the artist who follows it has all the advantages which have been enumerated for improvement in his particular art, and, in both ways, the invention and application of machinery are extended.

And from these causes united, the mere separation of the occupation of the cultivator from that of the artificer has the effect of augmenting the productive powers of labor, and with them the total mass of the produce or revenue of a country. In this single view of the subject, therefore, the utility of artificers or manufacturers towards promoting an increase of productive industry is apparent.

2. *As to an extension of the use of machinery, a point which, though partly anticipated, requires to be placed in one or two additional lights.*

The employment of machinery forms an item of great importance in the general mass of national industry. It is an artificial force brought in aid of the natural force of man, and, to all the purposes of labor, is an increase of hands, an accession of strength, unincumbered, too, by the expense of maintaining the laborer. May it not, therefore, be fairly inferred that those occupations which give greatest scope to the use of this auxiliary contribute most to the general stock of industrious effort, and, in consequence, to the general product of industry?

It shall be taken for granted, and the truth of the position referred to observation, that manufacturing pursuits are susceptible in a greater degree of the application of machinery than those of agriculture. If so, all the difference is lost to a community, which, instead of manufacturing for itself, procures the fabrics requisite to its supply from other countries. The substitution of foreign for domestic manufactures is a transfer to foreign nations of the advantages accruing from the employment of machinery in the modes in which it is capable of being employed with most utility and to the greatest extent.

The cotton mill, invented in England within the last twenty years, is a signal illustration of the general proposition which has been just advanced. In consequence of it all the different processes for spinning cotton are performed by means of machines which are put in motion by water, and attended chiefly by women and children, and by a smaller number of persons, in the whole, than are requisite in the ordinary mode of spinning. And it is an advantage of great moment that the operations of this mill continue with convenience during the night as well as through the day. The prodigious effect of such a machine is easily conceived. To this invention is to be attributed essentially the immense progress which has been so suddenly made in Great Britain in the various fabrics of cotton.

3. *As to the additional employment of classes of the community not originally engaged in the particular business.*

This is not among the least valuable of the means by which manufacturing institutions contribute to augment the general stock of

industry and production. In places where those institutions prevail, besides the persons regularly engaged in them, they afford occasional and extra employment to industrious individuals and families who are willing to devote the leisure resulting from the intermissions of their ordinary pursuits to collateral labors, as a resource for multiplying their acquisitions or their enjoyments. The husbandman himself experiences a new source of profit and support from the increased industry of his wife and daughters, invited and stimulated by the demands of the neighboring manufactories.

Beside this advantage of occasional employment to classes having different occupations, there is another of a nature allied to it, and of a similar tendency. This is the employment of persons who would otherwise be idle (and in many cases a burden on the community), either from the bias of temper, habit, infirmity of body, or some other cause, indisposing or disqualifying them for the toils of the country. It is worthy of particular remark that, in general, women and children are rendered more useful, and the latter more early useful, by manufacturing establishments than they would otherwise be. Of the number of persons employed in the cotton manufactories of Great Britain, it is computed that four sevenths nearly are women and children,—of whom the greatest proportion are children, and many of them of a tender age.

And thus it appears to be one of the attributes of manufactures, and one of no small consequence, to give occasion to the exertion of a greater quantity of industry, even by the same number of persons, where they happen to prevail, than would exist if there were no such establishments.

4. *As to the promoting of emigration from foreign countries.*

Men reluctantly quit one course of occupation and livelihood for another, unless invited to it by very apparent and proximate advantages. Many who would go from one country to another, if they had a prospect of continuing with more benefit the callings to which they have been educated, will often not be tempted to change their situation by the hope of doing better in some other way. Manufacturers who, listening to the powerful invitations of a better price for their fabrics or their labor; of greater cheapness of provisions and raw materials; of an exemption from the chief part of the taxes, burdens, and restraints which they endure in the Old World; of

greater personal independence and consequence under the operation of a more equal government; and of what is far more precious than mere religious toleration, a perfect equality of religious privileges, would probably flock from Europe to the United States to pursue their own trades or professions, if they were once made sensible of the advantages they would enjoy, and were inspired with an assurance of encouragement and employment, will with difficulty be induced to transplant themselves with a view to becoming cultivators of land.

If it be true, then, that it is the interest of the United States to open every possible avenue to emigration from abroad, it affords a weighty argument for the encouragement of manufactures, which, for the reasons just assigned, will have the strongest tendency to multiply the inducements to it.

Here is perceived an important resource, not only for extending the population, and with it the useful and productive labor of the country, but likewise for the prosecution of manufactures without deducting from the number of hands which might otherwise be drawn to tillage, and even for the indemnification of agriculture for such as might happen to be diverted from it. Many, whom manufacturing views would induce to emigrate, would afterwards yield to the temptations which the particular situation of this country holds out to agricultural pursuits. And while agriculture would in other respects derive many signal and unmingled advantages from the growth of manufactures, it is a problem whether it would gain or lose as to the article of the number of persons employed in carrying it on.

5. *As to the furnishing greater scope for the diversity of talents and dispositions which discriminate men from each other.*

This is a much more powerful mean of augmenting the fund of national industry than may at first sight appear. It is a just observation that minds of the strongest and most active powers for their proper objects fall below mediocrity, and labor without effect if confined to uncongenial pursuits. And it is thence to be inferred that the results of human exertion may be immensely increased by diversifying its objects. When all the different kinds of industry obtain in a community, each individual can find his proper element, and can call into activity the whole vigor of his nature. And the

community is benefited by the services of its respective members in the manner in which each can serve it with most effect.

If there be anything in a remark often to be met with, namely, that there is in the genius of the people of this country a peculiar aptitude for mechanic improvements, it would operate as a forcible reason for giving opportunities to the exercise of that species of talent by the propagation of manufactures.

6. *As to the affording a more ample and various field for enterprise.*

This also is of greater consequence in the general scale of national exertion than might perhaps, on a superficial view, be supposed, and has effects not altogether dissimilar from those of the circumstance last noticed. To cherish and stimulate the activity of the human mind by multiplying the objects of enterprise is not among the least considerable of the expedients by which the wealth of a nation may be promoted. Even things in themselves not positively advantageous sometimes become so by their tendency to provoke exertion. Every new scene which is opened to the busy nature of man to rouse and exert itself is the addition of a new energy to the general stock of effort.

The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded in proportion to the simplicity or variety of the occupations and productions which are to be found in a society. It must be less in a nation of mere cultivators than in a nation of cultivators and merchants, less in a nation of cultivators and merchants than in a nation of cultivators, artificers, and merchants.

7. *As to the creating, in some instances, a new, and securing in all a more certain and steady, demand for the surplus produce of the soil.*

This is among the most important of the circumstances which have been indicated. It is a principal mean by which the establishment of manufactures contributes to an augmentation of the produce or revenue of a country, and has an immediate and direct relation to the prosperity of agriculture.

It is evident that the exertions of the husbandman will be steady or fluctuating, vigorous or feeble, in proportion to the steadiness or fluctuation, adequateness or inadequateness, of the markets on which

he must depend for the vent of the surplus which may be produced by his labor; and that such surplus, in the ordinary course of things, will be greater or less in the same proportion.

For the purpose of this vent, a domestic market is greatly to be preferred to a foreign one, because it is, in the nature of things, far more to be relied upon.

It is a primary object of the policy of nations to be able to supply themselves with subsistence from their own soils; and manufacturing nations, as far as circumstances permit, endeavor to procure from the same source the raw materials necessary for their own fabrics. This disposition, urged by the spirit of monopoly, is sometimes even carried to an injudicious extreme. It seems not always to be recollected that nations who have neither mines nor manufactures can only obtain the manufactured articles of which they stand in need by an exchange of the products of their soils; and that if those who can best furnish them with such articles are unwilling to give a due course to this exchange, they must of necessity make every possible effort to manufacture for themselves; the effect of which is, that the manufacturing nations abridge the natural advantages of their situation through an unwillingness to permit the agricultural countries to enjoy the advantages of theirs, and sacrifice the interests of a mutually beneficial intercourse to the vain project of selling everything and buying nothing.

But it is also a consequence of the policy which has been noted, that the foreign demand for the products of agricultural countries is in a great degree rather casual and occasional than certain or constant. To what extent injurious interruptions of the demand for some of the staple commodities of the United States may have been experienced from that cause must be referred to the judgment of those who are engaged in carrying on the commerce of the country; but it may be safely affirmed that such interruptions are at times very inconveniently felt, and that cases not unfrequently occur in which markets are so confined and restricted as to render the demand very unequal to the supply.

Independently, likewise, of the artificial impediments which are created by the policy in question, there are natural causes tending to render the external demand for the surplus of agricultural nations

a precarious reliance. The differences of seasons in the countries which are the consumers make immense differences in the produce of their own soils in different years, and, consequently, in the degrees of their necessity for foreign supply. Plentiful harvests with them, especially if similar ones occur at the same time in the countries which are the furnishers, occasion of course a glut in the markets of the latter.

Considering how fast and how much the progress of new settlements in the United States must increase the surplus produce of the soil, and weighing seriously the tendency of the system which prevails among most of the commercial nations of Europe, whatever dependence may be placed on the force of natural circumstances to counteract the effects of an artificial policy, there appear strong reasons to regard the foreign demand for that surplus as too uncertain a reliance, and to desire a substitute for it in an extensive domestic market.

To secure such a market there is no other expedient than to promote manufacturing establishments. Manufacturers, who constitute the most numerous class after the cultivators of land, are for that reason the principal consumers of the surplus of their labor.

This idea of an extensive domestic market for the surplus produce of the soil is of the first consequence. It is, of all things, that which most effectually conduces to a flourishing state of agriculture. If the effect of manufactories should be to detach a portion of the hands, which would otherwise be engaged in tillage, it might possibly cause a smaller quantity of lands to be under cultivation; but by their tendency to procure a more certain demand for the surplus produce of the soil, they would at the same time cause the lands which were in cultivation to be better improved and more productive. And while, by their influence, the condition of each individual farmer would be ameliorated, the total mass of agricultural production would probably be increased. For this must evidently depend as much upon the degree of improvement, if not more, than upon the number of acres under culture.

It merits particular observation that the multiplication of manufactories not only furnishes a market for those articles which have been accustomed to be produced in abundance in a country, but it

likewise creates a demand for such as were either unknown or produced in inconsiderable quantities. The bowels as well as the surface of the earth are ransacked for articles which were before neglected. Animals, plants, and minerals acquire an utility and value which were before unexplored.

The foregoing considerations seem sufficient to establish, as general propositions, that it is the interest of nations to diversify the industrious pursuits of the individuals who compose them; that the establishment of manufactures is calculated not only to increase the general stock of useful and productive labor, but even to improve the state of agriculture in particular; certainly to advance the interests of those who are engaged in it. There are other views that will be hereafter taken of the subject which, it is conceived, will serve to confirm these inferences.

III. Previously to a further discussion of the objections to the encouragement of manufactures, which have been stated, it will be of use to see what can be said in reference to the particular situation of the United States against the conclusions appearing to result from what has been already offered.

It may be observed, and the idea is of no inconsiderable weight, that however true it might be that a state which, possessing large tracts of vacant and fertile territory, was at the same time secluded from foreign commerce, would find its interest and the interest of agriculture in diverting a part of its population from tillage to manufactures; yet it will not follow that the same is true of a state which, having such vacant and fertile territory, has at the same time ample opportunity of procuring from abroad, on good terms, all the fabrics of which it stands in need for the supply of its inhabitants. The power of doing this, at least, secures the great advantage of a division of labor, leaving the farmer free to pursue exclusively the culture of his land, and enabling him to procure with its products the manufactured supplies requisite either to his wants or to his enjoyments. And though it should be true that in settled countries the diversification of industry is conducive to an increase in the productive powers of labor, and to an augmentation of revenue and capital, yet it is scarcely conceivable that there can be anything of so solid and permanent advantage to an uncultivated and

unpeopled country as to convert its wastes into cultivated and inhabited districts. If the revenue, in the mean time, should be less, the capital in the event must be greater.

To these observations the following appears to be a satisfactory answer:—

1. If the system of perfect liberty to industry and commerce were the prevailing system of nations, the arguments which dissuade a country in the predicament of the United States from the zealous pursuit of manufactures would, doubtless, have great force. It will not be affirmed that they might not be permitted, with few exceptions, to serve as a rule of national conduct. In such a state of things each country would have the full benefit of its peculiar advantages to compensate for its deficiencies or disadvantages. If one nation were in a condition to supply manufactured articles on better terms than another, that other might find an abundant indemnification in a superior capacity to furnish the produce of the soil. And a free exchange, mutually beneficial, of the commodities which each was able to supply on the best terms might be carried on between them, supporting in full vigor the industry of each. And though the circumstances which have been mentioned, and others which will be unfolded hereafter, render it probable that nations merely agricultural would not enjoy the same degree of opulence, in proportion to their numbers, as those which united manufactures with agriculture; yet the progressive improvement of the lands of the former might, in the end, atone for an inferior degree of opulence in the mean time, and, in a case in which opposite considerations are pretty equally balanced, the option ought perhaps always to be in favor of leaving industry to its own direction.

But the system which has been mentioned is far from characterizing the general policy of nations. The prevalent one has been regulated by an opposite spirit. The consequence of it is that the United States are, to a certain extent, in the situation of a country precluded from foreign commerce. They can indeed, without difficulty, obtain from abroad the manufactured supplies of which they are in want, but they experience numerous and very injurious impediments to the emission and vent of their own commodities. Nor is this the case in reference to a single foreign nation only. The

regulations of several countries, with which we have the most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States.

In such a position of things the United States cannot exchange with Europe on equal terms, and the want of reciprocity would render them the victim of a system which should induce them to confine their views to agriculture, and refrain from manufactures. A constant and increasing necessity, on their part, for the commodities of Europe, and only a partial and occasional demand for their own in return, could not but expose them to a state of impoverishment compared with the opulence to which their political and natural advantages authorize them to aspire.

Remarks of this kind are not made in the spirit of complaint. It is for the nations, whose regulations are alluded to, to judge for themselves, whether, by aiming at too much, they do not lose more than they gain. It is for the United States to consider by what means they can render themselves least dependent on the combinations, right or wrong, of foreign policy.

It is no small consolation that already the measures which have embarrassed our trade have accelerated internal improvements, which, upon the whole, have bettered our affairs. To diversify and extend these improvements is the surest and safest method of indemnifying ourselves for any inconveniences which those or similar measures have a tendency to beget. If Europe will not take from us the products of our soil upon terms consistent with our interest, the natural remedy is to contract, as fast as possible, our wants of her.

2. The conversion of their waste into cultivated lands is certainly a point of great moment in the political calculations of the United States. But the degree in which this may possibly be retarded by the encouragement of manufactories does not appear to countervail the powerful inducements to affording that encouragement.

An observation made in another place is of a nature to have great influence upon this question. If it cannot be denied that the interests even of agriculture may be advanced more by having such of the lands of a State as are occupied under good cultivation than by having a greater quantity occupied under a much inferior cultivation, and if manufactories, for the reasons assigned, must be admitted to

have a tendency to promote a more steady and vigorous cultivation of the lands occupied than would happen without them, it will follow that they are capable of indemnifying a country for a diminution of the progress of new settlements, and may serve to increase both the capital value and the income of its lands, even though they should abridge the number of acres under tillage.

But it does by no means follow that the progress of new settlements would be retarded by the extension of manufactures. The desire of being an independent proprietor of land is founded on such strong principles in the human breast, that where the opportunity of becoming so is as great as it is in the United States, the proportion will be small of those whose situations would otherwise lead to it who would be diverted from it towards manufactures. And it is highly probable, as already intimated, that the accessions of foreigners who, originally drawn over by manufacturing views, would afterwards abandon them for agricultural, would be more than an equivalent for those of our own citizens who might happen to be detached from them.

The remaining objections to a particular encouragement of manufactures in the United States now require to be examined.

One of these turns on the proposition that industry, if left to itself, will naturally find its way to the most useful and profitable employment. Whence it is inferred that manufactures, without the aid of government, will grow up as soon and as fast as the natural state of things and the interest of the community may require.

Against the solidity of this hypothesis, in the full latitude of the terms, very cogent reasons may be offered. These have relation to the strong influence of habit, and the spirit of imitation, the fear of want of success in untried enterprises, the intrinsic difficulties incident to first essays towards a competition with those who have previously attained to perfection in the business to be attempted; the bounties, premiums, and other artificial encouragements with which foreign nations second the exertions of their own citizens in the branches in which they are to be rivaled.

Experience teaches that men are often so much governed by what they are accustomed to see and practice, that the simplest and most obvious improvements in the most ordinary occupations are adopted with hesitation, reluctance, and by slow gradations. The

spontaneous transition to new pursuits in a community long habituated to different ones may be expected to be attended with proportionably greater difficulty. When former occupations ceased to yield a profit adequate to the subsistence of their followers, or when there was an absolute deficiency of employment in them, owing to the superabundance of hands, changes would ensue; but these changes would be likely to be more tardy than might consist with the interest either of individuals or of the society. In many cases they would not happen, while a bare support could be insured by an adherence to ancient courses, though a resort to a more profitable employment might be practicable. To produce the desirable changes as early as may be expedient may, therefore, require the incitement and patronage of government.

The apprehension of failing in new attempts is, perhaps, a more serious impediment. There are dispositions apt to be attracted by the mere novelty of an undertaking, but these are not always those best calculated to give it success. To this it is of importance that the confidence of cautious, sagacious capitalists, both citizens and foreigners, should be excited. And to inspire this description of persons with confidence, it is essential that they should be made to see in any project which is new, and for that reason alone, if for no other, precarious, the prospect of such a degree of countenance and support from government as may be capable of overcoming the obstacles inseparable from first experiments.

The superiority antecedently enjoyed by nations who have preoccupied and perfected a branch of industry constitutes a more formidable obstacle than either of those which have been mentioned to the introduction of the same branch into a country in which it did not before exist. To maintain between the recent establishments of one country and the long matured establishments of another country a competition upon equal terms, both as to quality and price, is in most cases impracticable. The disparity in the one, or in the other, or in both, must necessarily be so considerable as to forbid a successful rivalship without the extraordinary aid and protection of government.

But the greatest obstacle of all to the successful prosecution of a new branch of industry, in a country in which it was before unknown, consists, as far as the instances apply, in the bounties, premiums,

and other aids which are granted in a variety of cases by the nations in which the establishments to be imitated are previously introduced. It is well known—and particular examples in the course of this report will be cited—that certain nations grant bounties on the exportation of particular commodities to enable their own workmen to undersell and supplant all competitors in the countries to which those commodities are sent. Hence the undertakers of a new manufacture have to contend not only with the natural disadvantages of a new undertaking, but with the gratuities and remunerations which other governments bestow. To be enabled to contend with success, it is evident that the interference and aid of their own governments are indispensable.

Combinations by those engaged in a particular branch of business in one country to frustrate the first efforts to introduce it into another by temporary sacrifices, recompensed, perhaps, by extraordinary indemnifications of the government of such country, are believed to have existed, and are not to be regarded as destitute of probability. The existence or assurance of aid from the government of the country, in which the business is to be introduced, may be essential to fortify adventurers against the dread of such combinations,—to defeat their effects, if formed, and to prevent their being formed by demonstrating that they must, in the end, prove fruitless.

Whatever room there may be for an expectation that the industry of a people, under the direction of private interest, will upon equal terms find out the most beneficial employment for itself, there is none for a reliance that it will struggle against the force of unequal terms, or will of itself surmount all the adventitious barriers to a successful competition, which may have been erected either by the advantages naturally acquired by practice and previous possession of the ground, or by those which may have sprung from positive regulations and an artificial policy. This general reflection might alone suffice as an answer to the objection under examination, exclusively of the weighty considerations which have been particularly urged.

The objections to the pursuit of manufactures in the United States, which next present themselves to discussion, represent an impracticability of success arising from three causes: scarcity of hands, dearness of labor, want of capital.

The two first circumstances are to a certain extent real, and within due limits ought to be admitted as obstacles to the success of manufacturing enterprise in the United States. But there are various considerations which lessen their force, and tend to afford an assurance that they are not sufficient to prevent the advantageous prosecution of many very useful and extensive manufactories.

With regard to scarcity of hands, the fact itself must be applied with no small qualification to certain parts of the United States. There are large districts which may be considered as pretty fully peopled, and which, notwithstanding a continual drain for distant settlement, are thickly interspersed with flourishing and increasing towns. If these districts have not already reached the point at which the complaint of scarcity of hands ceases, they are not remote from it, and are approaching fast towards it. And having perhaps fewer attractions to agriculture than some other parts of the Union, they exhibit a proportionably stronger tendency towards other kinds of industry. In these districts may be discerned no inconsiderable maturity for manufacturing establishments.

But there are circumstances which have been already noticed with another view, that materially diminish everywhere the effect of a scarcity of hands. These circumstances are: the great use which can be made of women and children, on which point a very pregnant and instructive fact has been mentioned; the vast extension given by late improvements to the employment of machines, which, substituting the agency of fire and water, has prodigiously lessened the necessity for manual labor; the employment of persons ordinarily engaged in other occupations during the seasons or hours of leisure, which, besides giving occasion to the exertion of a greater quantity of labor by the same number of persons, and thereby increasing the general stock of labor, as has elsewhere been remarked, may also be taken into the calculation as a resource for obviating the scarcity of hands; lastly, the attraction of foreign emigrants. Whoever inspects with a careful eye the composition of our towns, will be made sensible to what an extent this resource may be relied upon. This exhibits a large proportion of ingenious and valuable workmen in different arts and trades, who, by expatriating from Europe, have improved their own condition and added to the industry and wealth of the United States. It is a natural inference from the experience

we have already had, that as soon as the United States shall present the countenance of a serious prosecution of manufactures, as soon as foreign artists shall be made sensible that the state of things here affords a moral certainty of employment and encouragement, competent numbers of European workmen will transplant themselves effectually to insure the success of the design. How indeed can it otherwise happen, considering the various and powerful inducements which the situation of this country offers; addressing themselves to so many strong passions and feelings, to so many general and particular interests?

It may be affirmed, therefore, in respect to hands for carrying on manufactures, that we shall in a great measure trade upon a foreign stock, reserving our own for the cultivation of our lands and the manning of our ships, as far as character and circumstances shall incline. It is not unworthy of remark, that the objection to the success of manufactures deduced from the scarcity of hands, is alike applicable to trade and navigation, and yet these are perceived to flourish, without any sensible impediment from that cause.

As to the dearness of labor (another of the obstacles alleged), this has relation principally to two circumstances: one, that which has been just discussed, or the scarcity of hands; the other, the greatness of profits.

As far as it is a consequence of the scarcity of hands, it is mitigated by all the considerations which have been adduced as lessening that deficiency. It is certain, too, that the disparity in this respect between some of the most manufacturing parts of Europe and a large proportion of the United States is not nearly so great as is commonly imagined. It is also much less in regard to artificers and manufacturers than in regard to country laborers; and while a careful comparison shows that there is in this particular much exaggeration, it is also evident that the effect of the degree of disparity which does truly exist is diminished in proportion to the use which can be made of machinery.

To illustrate this last idea: let it be supposed that the difference of price in two countries of a given quantity of manual labor requisite to the fabrication of a given article is as ten, and that some MECHANIC power is introduced into both countries which, performing half the necessary labor, leaves only half to be done by hand,

it is evident that the difference in the cost of the fabrication of the article in question in the two countries, as far as it is connected with the price of labor, will be reduced from ten to five in consequence of the introduction of that POWER.

This circumstance is worthy of the most particular attention. It diminishes immensely one of the objections most strenuously urged against the success of manufactures in the United States.

To procure all such machines as are known in any part of Europe can only require a proper provision and due pains. The knowledge of several of the most important of them is already possessed. The preparation of them here is in most cases practicable on nearly equal terms. As far as they depend on water, some superiority of advantages may be claimed from the uncommon variety and greater cheapness of situations adapted to mill-seats with which different parts of the United States abound.

So far as the dearness of labor may be a consequence of the greatness of profits in any branch of business, it is no obstacle to its success. The undertaker can afford to pay the price.

There are grounds to conclude that undertakers of manufactures in this country can at this time afford to pay higher wages to the workmen they may employ than are paid to similar workmen in Europe. The prices of foreign fabrics in the markets of the United States, which will for a long time regulate the prices of the domestic ones, may be considered as compounded of the following ingredients: The first cost of materials, including the taxes, if any, which are paid upon them where they are made, the expense of grounds, buildings, machinery and tools; the wages of the persons employed in the manufactory; the profits on the capital or stock employed; the commissions of agents to purchase them where they are made; the expense of transportation to the United States, including insurance and other incidental charges; the taxes or duties, if any, and fees of office which are paid on their exportation; the taxes or duties, and fees of office which are paid on their importation.

As to the first of these items, the cost of materials, the advantage upon the whole is at present on the side of the United States; and the difference in their favor must increase in proportion as a certain and extensive domestic demand shall induce the proprietors of land to devote more of their attention to the production of those materials.

It ought not to escape observation, in a comparison on this point, that some of the principal manufacturing countries of Europe are much more dependent on foreign supply for the materials of their manufactures than would be the United States, who are capable of supplying themselves with a greater abundance, as well as a greater variety, of the requisite materials.

As to the second item, the expense of grounds, buildings, machinery and tools, an equality at least may be assumed; since advantages in some particulars will counterbalance temporary disadvantages in others.

As to the third item, or the article of wages, the comparison certainly turns against the United States, though, as before observed, not in so great a degree as is commonly supposed.

The fourth item is alike applicable to the foreign and to the domestic manufacture. It is indeed more properly a result than a particular to be compared.

But with respect to all the remaining items, they are alone applicable to the foreign manufacture, and in the strictest sense extraordinaries; constituting a sum of extra charge on the foreign fabric, which cannot be estimated at less than from fifteen to thirty per cent. on the cost of it at the manufactory.

This sum of extra charge may confidently be regarded as more than a counterpoise for the real difference in the price of labor; and is a satisfactory proof that manufactures may prosper in defiance of it in the United States.

* * * * * * * * * * *[1]

In order to a better judgment of the means proper to be resorted to by the United States, it will be of use to advert to those which have been employed with success in other countries. The principal of these are:—

1. *Protecting duties, or duties on those foreign articles which are the rivals of the domestic ones intended to be encouraged.*

[1] In the omitted portions Hamilton took up the question of how to obtain necessary capital for manufactures, and the extent to which they had already been introduced. He also discussed their effect in giving the country a better bargaining power in international trade and in providing Southern agriculturists with a market. (Ed.)

Duties of this nature evidently amount to a virtual bounty on the domestic fabrics, since by enhancing the charges on foreign articles they enable the national manufacturers to undersell all their foreign competitors. The propriety of this species of encouragement need not be dwelt upon, as it is not only a clear result from the numerous topics which have been suggested, but is sanctioned by the laws of the United States in a variety of instances; it has the additional recommendation of being a resource of revenue. Indeed, all the duties imposed on imported articles, though with an exclusive view to revenue, have the effect in contemplation; and, except where they fall on raw materials, wear a beneficent aspect towards the manufactures of the country.

2. *Prohibitions of rival articles, or duties equivalent to prohibitions.* This is another and an efficacious mean of encouraging national manufactures; but in general it is only fit to be employed when a manufacture has made such a progress, and is in so many hands, as to insure a due competition and an adequate supply on reasonable terms. Of duties equivalent to prohibitions there are examples in the laws of the United States; and there are other cases to which the principle may be advantageously extended, but they are not numerous.

Considering a monopoly of the domestic market to its own manufacturers as the reigning policy of manufacturing nations, a similar policy on the part of the United States, in every proper instance, is dictated, it might almost be said, by the principles of distributive justice; certainly by the duty of endeavoring to secure to their own citizens a reciprocity of advantages.

3. *Prohibitions of the exportation of the materials of manufactures.* The desire of securing a cheap and plentiful supply for the national workmen; and, where the article is either peculiar to the country, or of peculiar quality there, the jealousy of enabling foreign workmen to rival those of the nation with its own materials, are the leading motives to this species of regulation. It ought not to be affirmed that it is in no instance proper, but it is certainly one which ought to be adopted with great circumspection and only in very plain cases. It is seen at once that its immediate operation is to abridge the demand and keep down the price of the produce of some other branch of industry, generally speaking of agriculture, to the

prejudice of those who carry it on; and though if it be really essential to the prosperity of any very important national manufacture it may happen that those who are injured in the first instance may be eventually indemnified by the superior steadiness of an extensive domestic market depending on that prosperity, yet, in a matter in which there is so much room for nice and difficult combinations; in which such opposite considerations combat each other, prudence seems to dictate that the expedient in question ought to be indulged with a sparing hand.

4. *Pecuniary bounties.*

This has been found one of the most efficacious means of encouraging manufactures, and it is, in some views, the best, though it has not yet been practiced upon the government of the United States,—unless the allowance on the exportation of dried and pickled fish and salted meat could be considered as a bounty,—and though it is less favored by public opinion than some other modes. Its advantages are these:—

1. It is a species of encouragement more positive and direct than any other, and for that very reason has a more immediate tendency to stimulate and uphold new enterprises, increasing the chances of profit, and diminishing the risks of loss in the first attempts.

2. It avoids the inconvenience of a temporary augmentation of price, which is incident to some other modes, or it produces it to a less degree, either by making no addition to the charges on the rival foreign article, as in the case of protecting duties, or by making a smaller addition. The first happens when the fund for the bounty is derived from a different object (which may or may not increase the price of some other article according to the nature of that object); the second, when the fund is derived from the same or a similar object of foreign manufacture. One per cent. duty on the foreign article, converted into a bounty on the domestic, will have an equal effect with a duty of 2% exclusive of such bounty; and the price of the foreign commodity is liable to be raised in the one case in the proportion of 1%, in the other in that of 2%. Indeed, the bounty, when drawn from another source, is calculated to promote a reduction of price, because, without laying any new charge on the foreign article, it serves to introduce a competition with it, and to increase the total quantity of the article in the market.

3. Bounties have not, like high protecting duties, a tendency to produce scarcity. An increase of price is not always the immediate, though where the progress of a domestic manufacture does not counteract a rise, it is commonly the ultimate effect of an additional duty. In the interval between the laying of the duty and a proportional increase of price, it may discourage importation by interfering with the profits to be expected from the sale of the article.

4. Bounties are sometimes not only the best, but the only proper expedient for uniting the encouragement of a new object of agriculture with that of a new object of manufacture. It is the interest of the farmer to have the production of the raw material promoted by counteracting the interference of the foreign material of the same kind. It is the interest of the manufacturer to have the material abundant and cheap. If, prior to the domestic production of the material in sufficient quantity to supply the manufacturer on good terms, a duty be laid upon the importation of it from abroad, with a view to promote the raising of it at home, the interest both of the farmer and manufacturer will be disserved. By either destroying the requisite supply, or raising the price of the article beyond what can be afforded to be given for it by the conductor of an infant manufacture, it is abandoned or fails; and there being no domestic manufactories to create a demand for the raw material which is raised by the farmer, it is in vain that the competition of the like foreign article may have been destroyed.

It cannot escape notice that a duty upon the importation of an article can no otherwise aid the domestic production of it than by giving the latter greater advantages in the home market. It can have no influence upon the advantageous sale of the article produced in foreign markets, no tendency, therefore, to promote its exportation.

The true way to conciliate these two interests is to lay a duty on foreign manufactures of the material, the growth of which is desired to be encouraged, and to apply the produce of that duty by way of bounty either upon the production of the material itself, or upon its manufacture at home, or upon both. In this disposition of the thing the manufacturer commences his enterprise under every advantage which is attainable as to quantity or price of the raw material. And the farmer, if the bounty be immediately to him, is enabled by it to

enter into a successful competition with the foreign material. If the bounty be to the manufacturer on so much of the domestic material as he consumes, the operation is nearly the same; he has a motive of interest to prefer the domestic commodity, if of equal quality, even at a higher price than the foreign, so long as the difference of price is anything short of the bounty which is allowed upon the article.

Except the simple and ordinary kinds of household manufacture, or those for which there are very commanding local advantages, pecuniary bounties are in most cases indispensable to the introduction of a new branch. A stimulus and a support, not less powerful and direct, is, generally speaking, essential to the overcoming of the obstacles which arise from the competitions of superior skill and maturity elsewhere. Bounties are especially essential in regard to articles upon which those foreigners, who have been accustomed to supply a country, are in the practice of granting them.

The continuance of bounties on manufactures long established must almost always be of questionable policy, because a presumption would arise in every such case that there were natural and inherent impediments to success. But in new undertakings they are as justifiable as they are oftentimes necessary.

There is a degree of prejudice against bounties, from an appearance of giving away the public money without an immediate consideration, and from a supposition that they serve to enrich particular classes at the expense of the community.

But neither of these sources of dislike will bear a serious examination. There is no purpose to which public money can be more beneficially applied than to the acquisition of a new and useful branch of industry, no consideration more valuable than a permanent addition to the general stock of productive labor.

As to the second source of objection, it equally lies against other modes of encouragement, which are admitted to be eligible. As often as a duty upon a foreign article makes an addition to its price, it causes an extra expense to the community for the benefit of the domestic manufacturer. A bounty does no more. But it is the interest of the society in each case to submit to a temporary expense, which is more than compensated by an increase of industry and wealth, by an augmentation of resources and independence, and by

the circumstance of eventual cheapness, which has been noticed in another place.

It would deserve attention, however, in the employment of this species of encouragement in the United States, as a reason for moderating the degree of it in the instances in which it might be deemed eligible, that the great distance of this country from Europe imposes very heavy charges on all the fabrics which are brought from thence, amounting from 15% to 30% on their value, according to their bulk.

* * * * * * * * * * *[1]

5. *Premiums.*

These are of a nature allied to bounties, though distinguishable from them in some important features.

Bounties are applicable to the whole quantity of an article produced or manufactured or exported, and involve a correspondent expense. Premiums serve to reward some particular excellence or superiority, some extraordinary exertion or skill, and are dispensed only in a small number of cases. But their effect is to stimulate general effort; contrived so as to be both honorary and lucrative, they address themselves to different passions, touching the chords as well of emulation as of interest. They are, accordingly, a very economical mean of exciting the enterprise of a whole community.

There are various societies in different countries, whose object is the dispensation of premiums for the encouragement of agriculture, arts, manufactures and commerce, and though they are for the most part voluntary associations, with comparatively slender funds, their utility has been immense. Much has been done by this mean in Great Britain. Scotland in particular owes materially to it a prodigious melioration of condition. From a similar establishment in the United States, supplied and supported by the Government of the Union, vast benefits might reasonably be expected. Some further ideas on this head shall accordingly be submitted in the conclusion of this report.

6. *The exemption of the materials of manufactures from duty.*

The policy of that exemption, as a general rule, particularly in reference to new establishments, is obvious. It can hardly ever be advisable to add the obstructions of fiscal burdens to the difficulties

[1] Here he discussed the constitutionality of protection. (Ed.)

which naturally embarrass a new manufacture; and where it is matured, and in condition to become an object of revenue, it is, generally speaking, better that the fabric, than the material, should be the subject of taxation. Ideas of proportion between the quantum of the tax and the value of the article can be more easily adjusted in the former than in the latter case. An argument for exemptions of this kind in the United States is to be derived from the practice, as far as their necessities have permitted, of those nations whom we are to meet as competitors in our own and in foreign markets.

There are, however, exceptions to it, of which some examples will be given under the next head.

The laws of the Union afford instances of the observance of the policy here recommended, but it will probably be found advisable to extend it to some other cases. Of a nature bearing some affinity to that policy is the regulation which exempts from duty the tools and implements, as well as the books, clothes and household furniture, of foreign artists who come to reside in the United States; an advantage already secured to them by the laws of the Union, and which it is in every view proper to continue.

7. *Drawbacks of the duties which are imposed on the materials of manufactures.*

It has already been observed as a general rule, that duties on those materials ought, with certain exceptions, to be forborne. Of these exceptions, three cases occur which may serve as examples. One, where the material is itself an object of general or extensive consumption, and a fit and productive source of revenue. Another, where a manufacture of a simpler kind, the competition of which with a like domestic article is desired to be restrained, partakes of the nature of a raw material from being capable by a further process to be converted into a manufacture of a different kind, the introduction or growth of which is desired to be encouraged. A third, where the material itself is the production of the country, and in sufficient abundance to furnish a cheap and plentiful supply to the national manufacturers.

Under the first description comes the article of molasses. It is not only a fair object of revenue, but being a sweet, it is just that the consumers of it should pay a duty as well as the consumers of sugar.

Cottons and linens in their white state fall under the second description. A duty upon such as are imported is proper to promote the domestic manufacture of similar articles in the same state; a drawback of that duty is proper to encourage the printing and staining at home of those which are brought from abroad. When the first of these manufactures has attained sufficient maturity in a country to furnish a full supply for the second, the utility of the drawback ceases.

The article of hemp either now does or may be expected soon to exemplify the third case in the United States.

Where duties on the materials of manufactures are not laid for the purpose of preventing a competition with some domestic production, the same reasons which recommend, as a general rule, the exemption of those materials from duties, would recommend, as a like general rule, the allowance of drawbacks in favor of the manufacturer. Accordingly, such drawbacks are familiar in countries which systematically pursue the business of manufactures, which furnishes an argument for the observance of a similar policy in the United States; and the idea has been adopted by the laws of the Union, in the instances of salt and molasses. It is believed that it will be found advantageous to extend it to some other articles.

8. *The encouragement of new inventions and discoveries at home, and of the introduction into the United States of such as may have been made in other countries; particularly those which relate to machinery.*

This is among the most useful and unexceptionable of the aids which can be given to manufactures. The usual means of that encouragement are pecuniary rewards, and, for a time, exclusive privileges. The first must be employed according to the occasion and the utility of the invention or discovery. For the last, so far as respects "authors and inventors," provision has been made by law. But it is desirable, in regard to improvements and secrets of extraordinary value, to be able to extend the same benefit to introducers as well as authors and inventors; a policy which has been practiced with advantage in other countries. Here, however, as in some other cases, there is cause to regret that the competency of the authority of the national Government to the good which might be done, is not without a question. Many aids might be given to industry, many

internal improvements of primary magnitude might be promoted, by an authority operating throughout the Union, which cannot be effected as well, if at all, by an authority confined within the limits of a single State.

But if the Legislature of the Union cannot do all the good that might be wished, it is at least desirable that all may be done which is practicable. Means for promoting the introduction of foreign improvements, though less efficaciously than might be accomplished with more adequate authority, will form a part of the plan intended to be submitted in the close of this report.

It is customary with manufacturing nations to prohibit, under severe penalties, the exportation of implements and machines which they have either invented or improved. There are already objects for a similar regulation in the United States, and others may be expected to occur from time to time. The adoption of it seems to be dictated by the principle of reciprocity. Greater liberality in such respects might better comport with the general spirit of the country; but a selfish and exclusive policy in other quarters will not always permit the free indulgence of a spirit which would place us upon an unequal footing. As far as prohibitions tend to prevent foreign competitors from deriving the benefit of the improvements made at home, they tend to increase the advantages of those by whom they have been introduced, and operate as an encouragement to exertion.

* * * * * * * * * * *[1]

[1] Here followed details concerning the leading industries requiring protection. (Ed.)

# XVIII

## GALLATIN: FREE TRADE MEMORIAL[1]

*To the Honorable the Senate and House of Representatives of the United States, in Congress assembled:—*

The memorial of the committee appointed for that purpose by the "Free Trade Convention," held at Philadelphia in September and October, 1831,

RESPECTFULLY SHOWS:—

That a convention of delegates appointed by public meetings in various States of the Union, for the purpose of coöperating, by constitutional and legal measures, in procuring the repeal of the restrictive system, was held at Philadelphia on the 30th of September, 1831, and continued in session till the 7th October ensuing; when a committee, consisting of one member from each State represented in the convention, was appointed for the purpose of preparing a memorial to Congress, setting forth the evils of the existing tariff of duties, and asking such a modification of the same as shall be consistent with the purposes of revenue, and equal in its operation on the different parts of the United States, and on the various interests of the same.

Acting under that appointment, your memorialists respectfully pray:—

1st. That the duties be so reduced, as to leave, after the extinguishment of the public debt, only that amount of revenue which may be necessary to meet the ordinary exigencies of Government.

2dly. That, allowing a reasonable time for a gradual reduction of the present exaggerated duties on some articles, the duties on all the imported articles not free of duty be ultimately equalized, so as that the duty on any such article shall not vary materially from the

[1] Albert Gallatin (1761–1849) was chairman of the committee and wrote the report.

general average rate of all the duties together, or, in other words, from a uniform duty ad valorem on all imported articles subject to duty.

3dly. That wines, teas, coffee, and similar articles, be not added to the list of those now free of duty, but may, on the contrary, be subject to duties corresponding, in proportion to their respective value, with those laid on other imported articles subject to duty.

* * * * * * * * * * *

Your memorialists are aware that, even for the purposes of revenue, a strict adherence, in every instance, to a uniform rate of duty would be attended with great inconvenience. There is propriety in taxing articles of luxury in preference to those more generally used by the less wealthy classes of society. Yet it is found necessary to lessen the duty on watches, jewelry, thread lace, and other articles, which from their great value in a small bulk may with facility be fraudulently imported.

Considerations of a higher nature may render a great reduction of the duties on spirits improper. An exception has always been admitted with respect to articles necessary for the defense of the country. When asking for a uniform duty which, whether specific or laid ad valorem, shall not exceed the rate of 20% to 25%, as sufficient for the purposes of revenue, your memorialists submit the proposition as a general principle. But, whilst admitting that duties not exceeding in the aggregate the amount thus required may be arranged as the necessary exceptions to the general rule shall require, they contend that any considerable variation from the average rate, for the purpose of favoring special branches, is injurious to American industry, attended with certain national loss, unequal and oppressive in its operation, both with regard to the several classes of society and to the several sections of the country.

We are not called upon to discuss the abstract question whether another mode of taxation would be more eligible than the impost, or whether an unrestrained intercourse between all nations, free of the payment of any duties on imports, would be best calculated to promote the industry and prosperity of all. On that subject the experience of forty years is conclusive, so far as relates to the United States. The people prefer, in time of peace, duties raised on the importation of foreign merchandise to any internal tax, direct or

indirect. Whether for good or for evil, that system affords an encouragement to domestic manufactures not less efficient for being incidental. Duties on imports, amounting on an average to about 20% on the value, appear necessary to the support of Government. Although they may, to that extent, by diverting national industry from its natural channels, render it less productive; although they may, to that extent, lay a tax on the consumers in addition to that which is paid to Government; although they operate unequally on different sections of the country; all your memorialists ask is, that the evil shall not be aggravated by an inequality in the rates of duty. The question then at issue is, simply, whether the amount wanted shall be so raised as to fall equally upon all the consumers, or, in other words, on the community, and so as to encourage equally every branch of industry, or whether certain branches shall receive special protection by high and sometimes prohibitory duties.

Whether taxes are laid on income or on consumption, it is equally the duty of a government founded in justice to lay them equally on all, in proportion, as the case may be, to the income or the consumption. Were there no taxes of the latter description, every part of the country, and every class of society, would be left at liberty to supply its wants on the cheapest terms, and to pursue that branch of industry for which each was best fitted. If a tax, equivalent to an average duty of 20% (or at any other rate) on all foreign commodities becomes necessary for the support of Government, and is laid at an equal and uniform rate on all such commodities, all the sections of the country, classes of society, and individuals, are left as far as practicable in the same relative situation as before. But any law materially varying the rate on any of the taxed articles will in some respect change that relative situation, and to an extent proportionate to the change render the burden of the tax unequal. An alteration which thus deranges the natural order of things should at least be productive of an adequate and indisputable advantage to the community. Higher duties on luxuries than on articles generally, and in some cases exclusively, used by the less wealthy classes of society, are justified by the propriety of laying a heavier burden on those who are the best able to bear it. The domestic manufacture of a sufficient stock of arms, by Government or by contract, at a much higher price than they could be procured abroad

may be necessary, in order to secure at all times a supply of those indispensable means of defense. Raw materials are admitted free of duty, because they are not, in that state, immediate objects of consumption, but necessary for the production of commodities to which the national industry may be advantageously applied. The presumed advantages of the restrictive system should be equally palpable and clearly demonstrated: the burden of the proof lies altogether on its advocates.

Let it, however, be recollected that even the general benefit arising to the country at large may not always be a sufficient justification of great and important deviations from the equal and uniform system of taxation. A government which acknowledges the principle that no individual can be divested of his property for public purposes without indemnity cannot claim the right to do that indirectly which it is forbidden to do directly. A system calculated to lay permanent burdens, greatly unequal and oppressive, on some classes of society, or on a particular section of the country, would be radically unjust and altogether indefensible, even though it might be attended with some advantages to the community considered as a whole. But whether such advantages are in fact realized; whether, on any supposition, they ever can produce a profit equal to the actual national loss arising even from the indispensable duty of 20% to 25%, must be first examined.

It is self-evident that the industry of a country is most profitably employed, or, in other words, that a country acquires the greatest wealth, and its general prosperity is most advanced, in proportion as its capital and labor are most productive.

It is not less obvious that, if a given amount of capital and labor produces in the same time a less quantity of a certain commodity than could have been purchased with that quantity of another article which might have been produced in the same time by the same amount of capital and labor, there has been a misapplication of such capital and labor, and a national loss equal to the difference between the quantity produced and that which might have been purchased with the proceeds of the same capital and labor otherwise applied.

If the price at which a commodity can be afforded by the person who undertakes to produce it is higher than that at which it may be

or might have been purchased from others, the difference of price is the measure of the national loss incurred by his misapplication of capital and labor to the production of that commodity.

With one thousand bushels of wheat, worth $1 a bushel, one thousand yards of cloth of a certain quality may be purchased. If the capital and labor employed, or which might be employed, in producing the thousand bushels of wheat, do, when applied to the production of similar cloth, produce in the same time one thousand yards, there is neither comparative gain or loss in that application of capital and labor. But, if thus applied, it produces only eight hundred yards, there is an actual national loss of two hundred yards, equal to $200 or to two hundred bushels of wheat, since the same labor and capital, if applied to the production of wheat, would have produced one thousand bushels, with which one thousand yards of the cloth might have been purchased.

There is not the slightest difference in the result, whether the cloth, which might have been thus purchased at $1 a yard, was manufactured in the same district where the unfortunate new undertaker resided, or whether it was imported, either from another district of the same country or from a foreign country. In either case, it is again self-evident that the national loss is precisely the same.

If the new manufacturer (making a reasonable profit) can afford to sell his cloth at $1 a yard, it is a proof that there has been no misapplication of capital and labor, and neither comparative gain or loss, in having produced cloth instead of wheat. But if he cannot afford without loss to sell the cloth for less than $1.25 a yard; if he cannot (making a reasonable profit) afford to sell eight hundred yards for less than $1,000; it is certain that the same capital and labor, which might have been applied in producing one thousand bushels of wheat, with which one thousand yards of the cloth might have been purchased, has within the same time produced but eight hundred yards, and that a national loss equivalent to $200, or to two hundred bushels of wheat, has been incurred by this misapplication of the national industry.

The difference between the price at which a manufacturer can afford to sell the whole amount of the commodities produced by him in one year, and that at which the same quantity of the same articles may be, or might have been, purchased from others, is

therefore equal to the annual national profit or loss resulting from his application of capital and labor to that instead of any other branch of industry.

When the new manufacturer has to compete with others of the same country, or, if there is no duty on imports, with foreign manufacturers, as it is impossible for him to sell cloth of the same quality at a higher price than it can be obtained from others, the loss must necessarily fall on him. This is not the less a public loss on that account. On whomsoever this may fall, a diminution of the quantity or exchangeable value of the commodities which, with the same capital and labor otherwise applied, might have been produced is so much retrenched from what would otherwise have been an accumulation of capital or national wealth.

Although there may be occasional rash undertakings, it is also an indisputable truth, that the immense majority, even of this most enterprising nation, pursues only such branches of industry as are attended with profit. The losing manufacturer, having discovered his error, would not, if let alone, persevere in ruining himself; and such abortive attempts, abandoned in time, would on the whole produce but a comparatively small loss to the community. It happens quite otherwise when from any peculiar circumstances the legislature is unfortunately induced to interfere in the pursuits of industry, instead of confining its care to that of providing by wise laws for the security and equal protection of the personal rights and property of every individual.

If the competition is with foreign merchandise, and the legislature lays on this a duty of 25% ad valorem, the importer cannot afford the cloth which he previously sold at $1 for a price less than $1.25 a yard. The manufacturer at home is thus enabled to sell his at the same price, and by obtaining $1,000 for the eight hundred yards, to receive the same reasonable profit as at the time may generally be derived from the application of capital and labor in similar pursuits. Since the duty in this instance is not prohibitory, the cloth of that quality which is wanted for the consumption of the country will be supplied in part by the foreign importers and partly by the home manufacturers. On the whole amount, whether foreign or domestic, the consumer will be obliged, so long as there is no general reduction of price, to pay 25% more than formerly. The amount of

the additional price thus paid for the foreign cloth, being paid by the importer into the Treasury, is only an additional tax, which, as it relieves from the payment of some other tax otherwise necessary, cannot be considered as an actual loss to the community. The additional price paid on the domestic cloth is equally a burden on the consumer, but being paid not to Government but to the manufacturer is an actual national loss. The same loss is incurred in the manufacture of the cloth as if the duty had not been laid; and its only effect is to transfer that loss from the manufacturer to the consumer.

The duty may not always be laid so as to be nearly equal to the difference between the price at which the domestic manufacture can be afforded and that at which a similar foreign article might have been previously purchased.

If the duty is much less than that difference, it is only a fiscal measure, and does not enable the manufacturer to carry on his business. All the cloth of the quality on which the duty is laid will still be imported from abroad, but the additional price at which it is sold is only a tax on the consumer, and being paid to the Government does not amount to a national loss.

If the duty is much greater than that difference, as the domestic article can be manufactured at a price less than the aggregate of the duty and of the price at which the same foreign article might have been purchased previous to the duty, the price will probably be reduced by domestic competition to that at which it can be manufactured and afforded with the ordinary rate of profit. The duty becomes then prohibitory; the whole amount consumed is of domestic manufacture; the consumer still pays the whole amount of the difference between that at which that manufacture can be afforded and that at which the similar foreign article might have been previously purchased, and as no portion is paid into the public Treasury, the whole of that amount is a public loss.

In every case the difference between the former price and that at which the domestic manufacture can be sold with a reasonable profit is to the whole extent of that manufacture a loss to the community. That difference is equal, or nearly equal, on each yard of cloth, to the duty laid on a yard of the similar foreign article, whenever that duty is not too high to prevent partial foreign importations: it is less per yard than the duty, when this is higher than is necessary

for the encouragement of the domestic manufacture, and becomes prohibitory; but in this case, the whole amount consumed being of domestic manufacture, the aggregate public loss is greater than when the duty admitted is of foreign competition.

It may be urged that these evils are compensated by extraneous advantages which may accrue to the country from the establishment of manufactures; and as those cannot be indefinite, they should be compared with the national loss which necessarily flows from the restrictive system. It may also be asserted that the price at which the domestic manufacture may be afforded will be lessened by domestic competition, as so that it may not ultimately exceed that at which similar foreign articles might have been previously purchased; and that assertion deserves serious attention. But it cannot be denied that until the price is thus reduced, or unless there are extraneous advantages which compensate the difference between the former and the new artificial price, that difference is in the first instance a national loss, arising from what is for the time a misapplication of capital and labor. For, in order to disprove that position, it would be necessary to show that there is in the country a surplus amount of capital and labor which cannot be more profitably employed.

* * * * * * * * * * *

A state of society may indeed exist, where, owing either to a superabundant population, to over taxation, to a great inequality in the distribution of wealth or in the means of acquiring it, or to any other natural or artificial cause, a portion of an industrious population may occasionally or at all times be in actual want of employment. Of a country thus situated, it may be said that it contains a capability of labor beyond that actually put forth. The symptoms of such a state of things are sufficiently visible; workmen discharged or with reduced wages, asking employment and food, and poor rates given to able-bodied men as a supplement to their insufficient salary. We may understand how in that case a new manufacture—some new channels opened to the national industry—would, by giving employment to the laborer, bring into action an additional amount of labor.

There may also be countries favored with a more genial climate, where the wants being few, and the absolute necessary means of

subsistence earned with less labor, long continued misgovernment has created deeply rooted habits of indolence. And such countries may also be said to have a dormant power of labor which a free and wise government might stimulate and put in motion.

The situation of the United States is the very reverse in both respects. The existing rates of wages stimulate industry with a greater force than in any other country; and, as a natural consequence, there is not on the face of the globe a nation encumbered with less indolence or idleness; a population more active, industrious, and, we believe, more productive. This will continue "so long as the cheapness of unimproved land shall offer a certain employment to labor, and so long as the constitution remains free as it is." If the restrictionists can find a more powerful cause, some more efficient means to stimulate labor, and render American industry more productive and profitable, it will be a great and glorious discovery. For if it may perhaps be admitted that the national progress in acquiring wealth may be tested by the general rate of profits, there can be no doubt, and the most conspicuous illustration of the fact is found in the situation of the United States compared with that of every other country, that the greatest mass of comfort and happiness is always found where the remuneration of labor is the highest. Should this prove to be one of the obstacles to the establishment of some manufactures, we nevertheless pray that it may long so continue.

It is impossible that the state of the country should have been such as that its capital and labor could not have been more advantageously applied than to branches of industry which, left to themselves, were attended with actual loss, without a corresponding great and sensible diminution in the demand for capital and the wages of labor, neither of which has been felt. So long as those wages suffer no diminution, and so long as those employed in commercial and even agricultural pursuits continue to borrow large capitals at the rate of 6% a year, it is clear proof that those pursuits afford profits at least equal to that rate of interest, and that an application of capital and labor to the production of objects on which, if not artificially protected, a loss is experienced, is not at all necessary.

That by multiplying in any country the channels of domestic industry, a greater scope is given to its application, a market more

diversified and less liable to be glutted procured to its products, and a larger field opened to every species of skill and talent, is undubitably true. But to direct that industry to unprofitable pursuits which cannot be sustained without exaggerated duties paid by the consumer, and a corresponding national loss, does not open new channels of productive industry, but only diverts it from profitable to unprofitable pursuits to the community. It is truly remarkable that the advocates of the restrictive system should pretend to consider your memorialists as wild theorists, when there cannot be a plainer matter of fact than that if a man pays two dollars more for his coat, his plough, or the implements of his trade, it is a loss to him, which he must pay out of the proceeds of his industry, and that the aggregate of those individual losses is an actual national loss.

* * * * * * * * * * *

Every nation takes a laudable pride in all that contributes to elevate its character; in every progress made in science, letters, arts, wealth, and power; in all that constitutes an advanced state of civilization. To substitute American for foreign industry whenever the substitution is advantageous is an object in which all cordially unite. But whether taking advantage of that general and patriotic feeling, or carried away by it, the advocates of restriction contend that a trade in foreign commodities which, without regard to price, might be produced by domestic industry always interferes with that industry. They denounce and would proscribe that trade altogether, and thus in reality inflict the most serious injury on that object which they pretend to protect. Laws which do not trust the common sense of the citizen, which do not permit him to seek what he thinks the best market for the products of his industry, or which compel him to receive in exchange for these a less quantity of the objects he wants than without those laws he might have obtained, are evidently destructive of domestic industry. By free trade we mean that trade which we may carry free of any restrictions imposed by our own government. It is synonymous with free industry, and it is only because, and as far as, it promotes domestic industry that we object to those restrictions. When, in order to justify that system, it is said that nations are adversary to each other, and that a free trade between them would contravene the arrangements of Providence; when it seems to be forgotten that it is commerce which unites the

several nations of the civilized world, and that next to Christianity it is principally to commerce that we are indebted for modern civilization, we can but lament the extremes to which enlightened, patriotic, and philanthropic men may be carried by adhering to a favorite theory and losing sight of every other consideration.

Foreign commerce or the exchange of domestic for foreign commodities is of the same nature, and founded on the same principle, as commerce between different parts of the same country or that between individuals of the same district of country. Every individual, district of country, and country acquires wealth in proportion as, with the same capital and labor, the greatest quantity or exchangeable value of commodities is produced. Whence inevitably follows, in every case, the mutual advantage of exchanging articles produced cheaper by one individual for such as are produced cheaper by another, or of exchanging articles produced cheaper at home than abroad for those which may be produced cheaper abroad than at home. The division of labor which increases the skill of every individual in his particular branch is the foundation of the commerce or mutual exchange of commodities between individuals living in the same vicinity. That between different parts of an extensive country or between different countries has its origin in the difference of climate, of capital, of the density or nature of the population, and of long-acquired habits and corresponding skill in particular branches of industry. The causes which give rise to commerce, as well as its advantages or presumed inconveniences, are precisely the same, whether that commerce is carried between different nations or between different parts of the same country. The misapplication of capital and labor has the same effect, whatever may be the cause which enables an individual or a nation to produce a certain commodity with less capital and labor, and to sell it at a lower price than another individual or another nation.

Those truths are too obvious to be denied in direct terms, but they are disregarded; and several allegations are made, tending to show that an unrestricted intercourse between two nations is fatal to one or ruinous to both.

1. We have not been fortunate enough to discover on what principle or by what fact it can be proved that such intercourse "reduces the labor of one to the same scale of compensation with the labor of

the other, to the great injury of that nation whose labor stood highest on the scale."

Wages are one of the elements of the price of commodities; and if higher in a country which nevertheless affords certain commodities at a less price than the country where the wages are lower, there must be a difference in climate, soil, skill, or some other circumstance which produces that result. But in each country the price of labor is determined either by its productiveness or by the proportion between demand and supply in that country, and in no manner whatever by what may be that productiveness or that proportion in any other country, whether there is or is not an intercourse between the two countries. We have heard that Irish laborers, flocking in great numbers to England and Scotland, have by deranging the existing proportion between demand and supply, and by the low rate of wages to which they were used, lowered in certain seasons the price of labor in those two countries; but so long as they remained at home and did not, by transferring their labor to the spot, interfere with that of England, the long-continued intercourse between the two countries never had the slightest effect on the price of English labor, which, varying according to circumstances exclusively belonging to England, has never been reduced to the miserable pittance that hardly sustains, without remunerating, the Irish laborer. This is universally true with respect to every country; the price of labor is in each regulated exclusively by the respective proportion of supply and demand and the state of society. After two centuries of free commerce with Great Britain, and fifty years of a similar intercourse with the rest of the world, the price of labor continues without alteration to be higher in the United States than in England or any other country.

2. The circumstances which may tend to bring forth more labor in the application of capital to certain domestic manufactures than in that of the same capital to other pursuits have already been adverted to; at the same time that it has been shown that the labor employed in highly protected manufactures was nevertheless less productive than if applied to other branches of industry. But it is asserted, and the general impression intended to be made is, that because foreign trade puts in motion foreign, this is done at the expense of American industry, and that, therefore, by prescribing the

first this is necessarily encouraged. This would be true if foreign merchandise or any part of the foreign imports was bestowed gratuitously on the United States, in which case the Americans might enjoy the gift without giving any labor in return; but as every article imported must be purchased and cannot be paid for by any possible means other than the product of American industry, it necessarily follows that, whatever may be the amount of imports and of foreign industry by which they may have been produced, an equal value of American products and an equal amount of corresponding American industry is employed by the foreign trade. When a domestic manufacture equally productive as any other pursuit is substituted to the foreign articles, it puts in motion precisely the same quantity of labor, the same amount of American industry, neither more nor less than that which was employed in producing the articles with which the foreign article was previously purchased; the difference consists only in the respective degree of productiveness. The change is advantageous or injurious to the country, as the domestic manufacture may be more or less productive than other pursuits to which the same capital and labor might have been applied. The error of the restrictionists consists in not perceiving that the foreign trade promotes two equal amounts of foreign and domestic industry, and in supposing that the American industry, which in the establishment of a new manufacture is substituted to the foreign industry, is an addition to, instead of being a deduction from, the American industry which was or might have been otherwise employed. It is obvious that a certain amount of American industry which was or might have been employed in producing $1,000,000 worth of articles intended for exportation and to be exchanged for an equal value of foreign goods, cannot, if employed in a domestic manufacture of goods of similar nature, be any longer employed in producing the exportable articles; and the only question is, whether that amount of industry is more or less profitably employed in its new than in its former employment.

3. Since the foreign imports must always be paid for with the products of American industry, there must always be a tendency in foreign trade to equalize the respective value of the imports and exports. Though varying from year to year, any debt incurred must ultimately be paid out of the same fund. The imports of the

United States during the ten years, 1821 to 1830, have amounted according to the official accounts to $798,630,000, and the exports to $764,803,000. If the amount of bullion and specie imported and exported is deducted, the annual average of imports was $72,948,000, and that of exports $69,327,000. The annual average of exports of domestic produce was $53,221,000. If the re-exportations of foreign merchandise, valued at the same price as that of importation, are deducted from the imports, and about $20,000,000 added to these, on account of the difference between the rate at which British goods are valued by law and that of the exchange between the two countries, the annual average of the foreign articles consumed in the United States will be found to be about $60,000,000, which is an excess of near $7,000,000 beyond the exports of domestic produce. According to the official returns the difference is less than $3,500,000, but the corrections are obviously necessary. The amount of the earnings of American industry by sea, which cannot appear in the statement of exports, must be added to these, since they equally contribute to the payment of the imports. Those arising from the fish which from the banks is carried directly to foreign ports; of the whale and spermaceti oil, sold by the fishing vessels in South America; of the furs collected on the northwest coast and sold in China; and of the freights on the carrying trade, that is to say, on voyages from a foreign to another foreign port, cannot be estimated. But the freight on the $68,000,000 of domestic and foreign articles annually exported from the United States, calculated on the average rates according to the nature of the merchandise and to the ports of destination, exceeds $11,000,000, of which about $9,000,000 are earned by the American navigation. This result, whilst it illustrates the invariable correspondence between the value of the imports and that of the exports, shows also that so far from having been inundated during that period with foreign merchandise beyond the means of payment, the amount of exports, including freight and those items which cannot be ascertained, has certainly exceeded that of the imports. The difference has either been received in precious metals or applied to the payment of a debt previously due abroad, and it is probable that both have taken place. Independent of private remittances on foreign account, the amount of the public debt reimbursed to foreigners appears to have exceeded their investments in other

American stocks; and although, according to the official returns, which in that respect are necessarily defective, the amount of precious metals exported would appear to have exceeded by near $2,400,000 that imported during those ten years, it is ascertained that the amount of specie in the banks alone on the 1st of October, 1830, exceeded by more than $7,000,000 the amount at the end of the year 1819.

* * * * * * * * * * *

4. The laws of foreign nations which prohibit or restrain the sale of the products of American industry operate precisely in the same manner as any natural cause which confines the market of those products within certain limits. By lessening the amount of the exports or of the means of paying for foreign products, the restrictive laws enacted by any foreign nation lessen in the same proportion, not necessarily the imports from that nation, but the gross amount of the imports of the United States. No legislative measure is requisite on their part in order to avert the imaginary evil of an excess of imports over exports. The diminution of the imports is a natural and necessary consequence of the diminution of exports. Unless foreign commerce be considered as a positive evil, which must at all events be annihilated, there is no occasion for passing retaliatory laws which, by still more diminishing the imports, would necessarily have the same effect on the exports. Retaliatory laws that had that effect would only aggravate the evil, if the restrictions imposed by the foreign laws on American products are admitted to be an evil. They would also be injurious if, by being applied particularly to those nations which had imposed the restrictions, they compelled Americans to purchase elsewhere the commodities which they want, and might have purchased cheaper from those nations. The whole amount of imports equalizes itself with the whole amount of exports. It is not at all necessary that this equality should exist; it never does exist in the trade of any country with every other country. Every one purchases what it does want from that country which affords it on the cheapest terms, and sells its products to those countries by which they are wanted and which give the highest price.

The most zealous advocates of the protecting system do not pretend that their object is to lessen the amount of the American

products which, notwithstanding the restrictive laws of other nations, still find a market abroad. They do not say that the cotton of the South, and the surplus of the wheat and other provisions of the middle States beyond what is wanted for home consumption shall not be exported. They intend to give an additional and nearer market to the cotton and wheat grower, but not to deprive them of the foreign market which is still open to them; to supply growing wants for which the lessened exports can no longer pay, and not to increase those wants by preventing foreign nations from paying for the American products which they still wish to purchase. The restrictions imposed by foreign nations do not afford a single reason, though they may serve as a pretense for the adoption of restrictive measures on the part of the United States, which would not equally apply if the exports were reduced by a natural cause. The question still resolves itself into that of public utility, and whether measures intended to promote American industry fulfill that object. If, on the contrary, it is made less productive by the artificial direction given to it than if left to itself, the fact that foreign nations have imposed restrictions injurious to the foreign trade of the United States does not in the slightest degree change the state of the question, and is no reason whatever why a policy injurious to America should be adopted.

* * * * * * * * * * *

There is an exception to the general principle. Retaliatory measures may be resorted to with more or less success, according to circumstances, and as they may be more or less adapted to the object in view, for the purpose of inducing a nation to alter her policy and conduct. In that case such measures are of a temporary nature, and a discussion of their propriety is foreign to the question now under consideration. Had this been the motive the course pursued would have been very different. The commercial conventions would, according to the right reserved, have been abrogated, and the manufactures of the countries in question exclusively taxed or prohibited. But it is believed that the advocates of the protecting system would not hesitate to declare that it is in itself highly advantageous, and to avow that unless convinced of the utility of a modification, they will persevere in the same policy even if all the restrictions of foreign nations on the American trade were revoked.

5. When the general prevalence of the restrictive system and the experience of other nations are appealed to, the appeal is in fact only made to the result of that policy in England. For it is in England alone that the prohibitory system, and a complete success in establishing manufactures generally superior in cheapness or quality, are found united. The only legitimate inference that can be drawn from her example is that both may subsist together. It would require a much more minute knowledge of the origin and gradual progress of the manufactures in that country than any man does possess to ascertain whether, in what branches, and how far the prohibitive system has promoted or impeded that progress. But if that system was the principal cause which has made Great Britain the first manufacturing country of the world it would have produced similar effects in all the countries where it was adopted, as well as in all the parts of the same country, whilst those which had rejected it would be found destitute of manufactures.

It is quite true that the restrictive or prohibitive system, as a branch of that of monopolies, is of ancient origin, and has been adopted and persevered in for centuries, by most European nations. The only exceptions are perhaps to be found in Holland, which, from her situation and exclusive attention to commerce, followed the opposite course, and in those countries subdivided into states or communities which, like the United States before the adoption of the present Government, could not unite in a general system. The first obvious reflection is, why the result has been so different in different countries? The system appears to have been early adopted in Spain. There is hardly a treaty concluded during the seventeenth century between that country and England, in which there is not a clause for the reduction in her favor of the exorbitant duties laid by Spain on certain manufactures. We need not state what is the situation of that country in that respect. Though of much more ancient origin, it is admitted that the system has rigorously been adhered to in France, from the time of Colbert to this moment, with the single exception of the few years which intervened between the treaty of commerce of 1786 with England, and the wars of the French revolution. France continues to enjoy the same superiority, even over England, in the silk manufacture, which she already had in the time of Colbert; but she is yet unable to compete with her in

most other branches. This is evident from the statements of importations into the United States, which afford the best criterion of the manufactures in which each nation may have a real superiority. From France we import silks, objects of taste, and fancy articles, but few or no woollens, cottons, linens, cutlery, or manufactures of leather. And, as pointing out the true cause of success, it may be observed that a country may excel in certain particular branches of the same species of manufacture in which it is in general inferior to its neighbors. Thus, England, inferior to France in every other branch of the silk manufacture, maintains her superiority in that of silk stockings.

Again, the system has not produced the same effect in the different parts of the same country. Manufactures flourish in Scotland as well as in England, whilst those of Ireland continue in a still more depressed state than her agriculture. The central parts of France exhibit a nearly similar inferiority to the northern section of that country; and our southern and even western States, to New England.

Switzerland is one of the few European countries to which the restrictive system has not extended; and is, nevertheless, that which, in proportion to her population is, next to England, the first manufacturing country of Europe. Exposed, like her, to the same revulsions, and to periods of distress, when the channels of superabundant manufactured products are obstructed, Switzerland, unprotected by any duties whatever on foreign merchandise, beside certain branches belonging particularly to her, rivals England in the cotton, and France in the silk manufacture.

If these observations do not prove that the restrictive system may not, in some instances, accelerate the establishment of manufactures, they show conclusively that a tariff acts, at best, but a very secondary part, and that there are some other causes far more efficient in promoting domestic industry. A sufficient capital and a certain density of population are necessary requisites; and agriculture will, in preference to manufactures, attract labor in countries or districts where virgin land is abundant and within the reach of all. But a single glance at the map of Europe will satisfy every intelligent observer that the great superiority of some over other countries, in other respects equally fitted for manufactures, is due to the nature of the government, to laws which at least secure to men the proceeds of

their industry, to liberty, or at least comparative liberty, and to the diffusion of knowledge, and superior intelligence, skill, and activity, the infallible offspring of unrestrained industry, and of political, religious, and civil liberty.

We may also, before we dismiss this branch of the subject, and in order to rebut those general assertions of the ruin that attends all nations which rely, in any considerable degree, on foreign trade for a market, appeal to that which we know best, which we have seen and enjoyed,—to the experience of North America. Assisted only by the ordinary mechanical arts, and with hardly any manufacturing establishments, America, during two centuries, relied almost exclusively on the cultivation of her soil, and on the exportation of its products to foreign ports; and her progress during that period, in population, wealth, and all the arts of civilization, as well as in the general diffusion of knowledge and happiness through all the classes of society, stands unparalleled in the annals of mankind. A change of circumstances may induce a partial and gradual alteration in the pursuits of her citizens, and we may rest assured that, if not diverted by legislative interference, they will, as heretofore, embrace those best adapted to their situation.

Since the national loss, produced by high duties on importations, consists of the difference between the former and the new artificial price, the evil will cease whenever the product of the protected domestic manufacture can be afforded, and is sold at the same price as the similar foreign article, free of the protecting duty. The advocates of the restrictive system insist that this is the natural and necessary consequence of the protecting duty, and is produced by the domestic competition.

It must be observed, in the first place, that domestic competition can have no effect either on the wages, the price of the raw materials, or that of provisions, of machinery, or of any other article necessary for the manufacturing process. It can operate, immediately, only on the rate of profits; and, since their insufficiency is the reason for granting the protecting duty, its first effect is to raise them. Domestic competition may afterwards reduce them to a rate corresponding with those of other pursuits, but after they have been reduced to the lowest possible rate, the price of the protected commodity cannot be

lessened, otherwise than by a corresponding diminution in the cost of producing it. A reduction of the price of labor, or of the raw material, are circumstances independent of the tariff, and over which the manufacturer has no control. Towards reducing the cost of producing the commodity, competition can have no effect, but in as far as it may stimulate improvements in the manufacturing process; and for this there must be a sufficient motive.

Secondly, competition does not even reduce profits to their lowest rate, unless the supply of the domestic commodity is equal to the wants of the country. Whenever, and so long as, this is not the case, a monopoly is created, which will be attended with all its usual consequences. If, instead of an elevated rate of duty, the similar foreign article is altogether prohibited, the exorbitant price of the domestic commodity is checked only by the lessened demand for it. That price is limited by that at which the foreign article can still be purchased, and by that alone, when the importation is not prohibited, but only charged with a heavy duty. Improvements, tending to lessen the cost of production, may, in that case, still be introduced by the manufacturer for his own benefit; but the price of the domestic commodity will, nevertheless, be exclusively regulated by that at which the similar foreign article may be obtained.

It is, therefore, only when the supply of the domestic manufacture is, or may within a very short time be made, equal to the full demand of the country, that domestic competition may reduce the rate of profits, and ultimately the cost of production. It cannot be doubted that, when the competition is with foreign articles, the necessity of introducing the improvements requisite for that purpose is much greater than when it is only between the American manufacturers. When the manufacture is already established at the time of laying the protecting duty, the improvements which may afterwards take place would have been introduced at least as early, if the restrictive system had not existed; and there may be instances where the duty prevents or retards the adoption of such improvements.

But a reduction of price is, in no case whatever, due to the tariff, so long as the similar foreign article can still be imported, and the price of the domestic commodity is not reduced below that at which the foreign is sold. Under those circumstances, the reduction is

clearly due to a fall in the price of the foreign article, and is altogether independent of the tariff. If, in any instance, the price of the domestic article has, immediately after the tariff, fallen below the price at which the foreign article could, thenceforth, be imported, it only proves that the duty was higher than was necessary for the ostensible object in view. The price must fall as low as that at which the foreign article might have been purchased prior to the protecting duty, before the national loss caused by it ceases. It is only then that the domestic manufacture proves successful and beneficial to the consumer, and to the community at large.

Coarse cotton goods are the only protected branch which comes within that description, and the causes of the fall of price, which operated almost simultaneously in England and America, are notorious and acknowledged. They cannot be better expressed than in the words of one of the manufacturers (Mr. Dexter) examined before the Committee on Manufactures in 1828. "It is owing to the improvement in machinery, the reduced price of raw cotton, and the increased skill in the manufacture." The reduction in the price of the raw material was solely due to the increased supply compared with the demand. The manufacture was already firmly established before the year 1816. As early as the year 1810, there were north of the Potomac fifty mills for spinning cotton in operation, and twenty-five more that went into operation the ensuing year. The weaving business had commenced, but was not so far advanced. Under those circumstances, the improvements in machinery and the gradual acquisition of skill would have infallibly taken place with the common average duty, which was, at that time, about 33% on the value. It is at least doubtful whether the favorable result was hastened by the tariff of 1816, which gave a protecting duty of six cents and a quarter per yard, amounting to 62½% actual, and equivalent to 52% nominal duty ad valorem on the prime cost of the cheapest India cotton goods at that time imported.

A similar fall of price, and owing to the same causes, took place in England notwithstanding the partial competition of East India goods. . . .

The suggestion that this fall in Great Britain was in any degree due to the competition with the American article, is quite groundless, since it was the result, partly of the fall in the price of the raw

material which operated at the same time on both countries, principally of improvements which originated in England, and were subsequently adopted in America.

* * * * * * * * * * *

The only effect that can possibly be ascribed to a protecting duty is that of encouraging the establishment of manufactures which would not otherwise have existed, or of inducing a greater number of persons to embark in those already existing. The propriety of the duty depends altogether on the probability of speedy success, that is to say, of the manufacture being so far adapted to the circumstances of the country that, after having been assisted by the duty in surmounting the first difficulties incident to every new undertaking, it will be able to sustain itself, and without such assistance to compete with the foreign article. It has been clearly shown that the manufacture is otherwise a losing concern, productive of national loss.

This leads to the important distinction between a permanent and a temporary protecting duty; the first imposing a perpetual tax for the purpose of perpetuating a continued public loss, the other proper only when the prospect of speedy success is nearly certain. For if necessary to be continued for a long while, the loss continued for a period of years may be greater than the object is worth; and it would have been much wiser to wait till the country was better prepared for commencing the manufacture. The question is, how the Legislature, on subjects so complex, is to decide whether there is a probability that the result will in a short time be favorable? We answer, first, that whenever the application is for a gradually increasing instead of a decreasing rate of duties, it is a complete proof that the applicants wish a permanent and not a temporary duty; secondly, that whenever the protecting duty required is exorbitant, this likewise clearly proves that there is not any expectation of a speedy favorable result. It is clear that the protection required must be proportionate to the difficulty of establishing the manufacture, and that the country is better prepared for those which require the least protection. A moderate and uniform duty will naturally encourage these, without the necessity of any special legislative interference, whilst those alone will be postponed which, for the very reason that they require a higher protection, ought not yet to be attempted. Instead of an artificial and precarious system, the progress will be

natural, steady, and permanent. The charges on imported articles vary according to their nature, are seldom if ever less than 10% and sometimes amount to 20%. A general duty of 20% added to those charges would give an actual protection of 30%, much greater than that under which all the usual mechanical arts have been firmly established in the United States; greater than is asked by several branches now suffering under the present partial system, and amply sufficient for the encouragement of any manufacture which there is any probability of establishing successfully within a reasonable time. The duty of 30% substituted in England to the entire prohibition of foreign silk stuffs has, notwithstanding the clamors of those interested, promoted, instead of injuring the British manufacture; and Mr. Hamilton, so often quoted, never proposed a protecting duty of 15% ad valorem.

* * * * * * * * * * *

A uniform and moderate duty does not derange the natural order of things; and instead of sustaining, by artificial means, certain manufactures for which the country may not be prepared, at the expense of the community, and particularly of the poorer classes, to the detriment of other manufactures, and to the great injury of some parts of the country, it will encourage and successively promote the various branches of industry best adapted to the state of society, and to the circumstances of the different parts of the Union. A maximum duty of 25%, added to the charges on importation, will give to the manufactures that may require it an annual protection of 35%. An efficient system that will prevent frauds, and, as far as practicable, check irregular importations on foreign account, will insure to the manufacturer the legal protection to its full extent; and, given in a true spirit of compromise and conciliation, it will have that stability indispensable to him, and on which he never can rely under the present system.

Your memorialists beg leave here to observe, that, whilst they have considered a duty of 25% as the highest that should, in any case, be allowed, they have not pretended to assert that the average duty required for the exigencies of Government should be 20% on the value. If they have adopted that rate in their calculations, it has been only in order to meet any determination that may be taken by your honorable body, on the amount of the revenue which should be

provided for, and any difference of opinion respecting the probable amount of importations, and the consequent productiveness of any given percentage. In their own opinion, the average duty actually required would fall far short of 20%.

After having given the fullest consideration to this important subject, your memorialists have not been able to perceive any other objection to the immediate adoption of the plan which they have respectfully suggested, than that which arises from vested interests. These are entitled to respect only because they do exist, and not on account of any presumed legislative pledge which no legislature could give; and which, if so intended, your memorialists altogether deny to be in any degree binding upon subsequent legislatures. Your memorialists have, accordingly, been instructed to express the willingness of those in whose behalf they address your honorable body to acquiesce in such an interposition of the legislative power as shall be prospective in its operation, thereby avoiding any sudden revulsion which might operate with undue severity on the manufacturing interest, but leading to the desired result, with the least possible injury to the interests which have grown up under the existing system of protective duties.

Your memorialists trust that the temporary and doubtful advantages ascribed to the tariff system, and which may, perhaps, accrue to some particular districts, will not be permitted to outweigh considerations of a far more important character. It may justly be expected, from the patriotism of those who calculate upon such local advantages, that they will not insist on what is manifestly unjust, and persevere in a course which disturbs the peace of the country and alienates the affections of a numerous portion of their fellow-citizens.

Let it be recollected that the system is, in itself, an infraction of an essential part of the liberty of the citizen. The necessity must be urgent and palpable, which authorizes any government to interfere in the private pursuits of individuals, to forbid them to do that which, in itself, is not criminal, and which every one would most certainly do, if not forbidden. Every individual, in every community without exception, will purchase whatever he may want, on the cheapest terms within his reach. The most enthusiastic restrictionist, the manufacturer most clamorous for special protection, will each

individually pursue the same course, and prefer any foreign commodity, or material, to that of domestic origin, if the first is cheaper, and the law does not forbid him. All men ever have acted, and continue, under any system, to act on the same principle. It is impossible that they should universally act in that manner, unless it was evidently their interest so to do. The tariff system is founded upon the principle, that what is true of all men, individually, is untrue when applied to them collectively. We cannot consider the adherence of enlightened nations to regulations of that description, but as the last relic of that system of general restrictions and monopolies, which had its origin in barbarous times. If the corn laws are the most odious of those protecting monopolies, it is because they enhance the price of that which is still more essentially necessary than sugar, salt, clothing, or fuel; and we may safely predict that their repeal will be the first result of an improved representation of the people.

Your memorialists are fully aware that acquiescence in the will of the majority is the indispensable condition of a representative government. The true problem to be solved in the United States is not whether the people can govern themselves, of which not the slightest doubt can be entertained, but whether that government can be successfully applied to an extensive territory, embracing interests which must occasionally be in collision with each other; whether majorities formed by combinations of sectional interests will be so governed by a sense of justice and a spirit of conciliation as not to oppress those parts of the country, whose rights, though they may be a minority, ought, nevertheless, to be respected. The permanence of the Union and the destinies of this great and happy nation have been intrusted to your honorable body; and, with an humble hope that your deliberations may be enlightened by Him to whom the United States are indebted for all the blessings they enjoy, your memorialists, as in duty bound, will ever pray, etc.

In behalf of the Committee,

ALBERT GALLATIN, *Chairman.*

NEW YORK, *January* 23, 1832.

# XIX

## WEBSTER: SPEECH OF 1814[1]

SIR, a Government which cannot administer the affairs of a nation without producing so frequent and such violent alterations in the ordinary occupations and pursuits of private life, has, in my opinion, little claim to the regard of the community.

It has been said that the system of commercial restriction was favorable to domestic manufactures, and that if it did nothing but induce the habit of providing for our own wants by our own means, it would deserve to be esteemed a blessing. Every gentleman may remember how often, and how zealously, this consideration has been urged upon us. Those, nevertheless, who were opposed to it, and who thought they understood its real character and true objects, did not hesitate to predict that the moment any supposed policy of the Government required it, manufactures would be sacrificed with as little reluctance as commerce had been.

* * * * * * * * * * *

But whatever Government intends to do on this subject, it ought to be frank and sincere. Its policy ought to be known, and if it has not a total disregard to the interests of the community, it ought to be constant. In respect to manufactures, it is necessary to speak with some precision.

I am not, generally speaking, their enemy. I am their friend, but I am not for rearing them, or any other interest, in hot-beds. I would not legislate precipitately, even in favor of them; above all, I would not profess intentions in relation to them which I did not purpose to execute. I feel no desire to push the capital into extensive manufactures faster than the general progress of our wealth and population propels it.

[1] Daniel Webster (1782–1852), Speech on the Repeal of the Embargo, in the House of Representatives, April 6, 1814.

I am not in haste to see Sheffields and Birminghams in America. Until the population of the country shall be greater in proportion to its extent, such establishments would be impracticable, if attempted, and if practicable, they would be unwise.

Whatever manufactures can be conducted in the household, where children may be occupied under parental guardianship and protection, are useful in the highest degree. Many others, cotton and woollens for instance, of which the material constituting the article of chief value, is or may be the produce of our own soil, are likewise worthy of protection and care. But of those products of which the chief ingredient is the labor bestowed, which can be made profitable only by division and subdivision of labor, and by the toil of children of both sexes, drawn together in great numbers, and put out of sight of those who have a natural interest in the preservation of their health and morals, one can hardly speak in terms of so decisive approbation. Habits favorable to good morals and free Governments, are not usually most successfully cultivated in populous manufacturing cities. It is one of the consequences of such employments to render the laborer altogether dependent on his employer. This arises from the extent to which the division of labor is carried in great manufacturing establishments. He whose occupation it has been for his whole life to perform only one of the many operations necessary to the production of a single article, is necessarily among the most dependent of human beings. The trite example of the number of persons—sixteen or eighteen—who have all their several labors and operations in the production of a common brass pin, sufficiently illustrates my idea.

One of these laborers, utterly incapable of making and carrying to the market on his own account the smallest entire article, is necessarily at the mercy of the capitalist for the support of himself and family. Any cause which deprives him of that particular occupation for which only he is fit, by habit and education, throws him a burden on society. As such causes must occur often, it is in the neighborhood of such establishments that hands unemployed or ill employed will be found in greatest numbers.

It is in her manufacturing districts that England recruits her armies. It is there, principally, that those are found who have the least hold on society, and where necessities, or where habits, force them to

the camp. I am not anxious to accelerate the approach of the period when the great mass of American labor shall not find its employment in the field; when the young men of the country shall be obliged to shut their eyes upon external nature, upon the heavens and the earth, and immerse themselves in close and unwholesome workshops; when they shall be obliged to shut their ears to the bleatings of their own flocks, upon their own hills, and to the voice of the lark that cheers them at the plough, that they may open them in dust, and smoke, and steam, to the perpetual whirl of spools and spindles, and the grating of rasps and saws. I have made these remarks, sir, not because I perceive any immediate danger of carrying our manufactures to an extensive height, but for the purpose of guarding and limiting my opinions, and of checking, perhaps a little, the high-wrought hopes of some who seem to look to our present infant establishments for "more than their nature or their state can bear."

It is the true policy of Government to suffer the different pursuits of society to take their own course, and not to give excessive bounties or encouragements to one over another. This, also, is the true spirit of the Constitution. It has not, in my opinion, conferred on the Government the power of changing the occupations of the people of different States and sections, and of forcing them into other employments. It cannot prohibit commerce any more than agriculture; nor manufactures any more than commerce. It owes protection to all. I rejoice that commerce is once more permitted to exist; that its remnant, as far as this unblessed war will allow, may yet again visit the seas, before it is quite forgotten that we have been a commercial people. I shall rejoice still further, when I see the Government pursue an independent, permanent, and steady system of national politics; when it shall rely for the maintenance of rights and the redress of wrongs on the strength and resources of our own country, and break off all measures which tend, in any degree, to connect us with the fortunes of a foreign Power.

## WEBSTER: SPEECH OF 1824[1]

The true course then, sir, for us to pursue is, in my opinion, to consider what our situation is, what our means are, and how they can be best applied. What amount of population have we in comparison with our extent of soil, what amount of capital, and labor at what price? As to skill, knowledge, and enterprise, we may safely take it for granted that, in these particulars, we are on an equality with others. Keeping these considerations in view, allow me to examine two or three of those provisions of the bill to which I feel the strongest objections.

To begin with the article of iron. Our whole annual consumption of this article is supposed by the Chairman of the Committee to be 48,000 or 50,000 tons. Let us suppose the latter. The amount of our own manufacture he estimates, I think, at 17,000 tons. The present duty on the imported article is $15 per ton, and as this duty causes of course an equivalent augmentation of the price of the home manufacture, the whole increase of price is equal to $750,000 annually. This sum we pay on a raw material, and on an absolute necessary of life. The bill proposes to raise the duty from $15 to $22.50 per ton, which would be equal to $1,125,000 on the whole annual consumption. So that, suppose the point of prohibition which is aimed at by some gentlemen to be attained, the consumers of the article would pay this last mentioned sum every year to the producers of it, over and above the price at which they could supply themselves with the same article from other sources. There would be no mitigation of this burden, except from the prospect, whatever that might be, that iron would fall in value by domestic competition after the importation should be prohibited. It will be easy, I think, to show that it cannot fall; and supposing for the present that it shall not, the result will be that we shall pay annually a sum of $1,125,000, constantly augmented, too, by increased consumption of the article, *to support a business that cannot support itself.*

It is of no consequence to the argument that this sum is expended at home; so it would be if we taxed the people to support any other

[1] Daniel Webster, Speech upon the Tariff, in the House of Representatives, April 1 and 2, 1824.

useless and expensive establishment—to build another Capitol, for example, or incur an unnecessary expense of any sort. The question still is, are the money, time, and labor well laid out in these cases? The present price of iron at Stockholm, I am assured by importers, is $53 per ton on board, $48 in the yard before loading, and probably not far from $40 at the mines. Freight, insurance, etc., may be fairly estimated at $15, to which add our present duty of $15 more, and these two last sums, together with the cost on board at Stockholm, give $83 as the cost of Swedes iron in our market. In fact, it is said to have been sold last year at $81.50 to $82 per ton. We perceive by this statement that the cost of the iron is doubled in reaching us from the mine in which it is produced. In other words, our present duty, with the expense of transportation, gives an advantage to the American, over the foreign manufacturer, of 100%. Why then cannot the iron be manufactured at home? Our ore is said to be as good, and some of it better. It is under our feet, and the Chairman of the Committee tells us that it might be wrought by persons who otherwise will not be employed. Why then is it not wrought? Nothing could be more sure of constant sale. It is not an article of changeable fashion, but of absolute, permanent necessity, and such, therefore, as would always meet a steady demand. Sir, I think it would be well for the Chairman of the Committee to revise his premises, for I am persuaded that there is an ingredient properly belonging to the calculation which he has misstated or omitted. Swedes iron in England pays a duty, I think, of about $27 per ton; yet it is imported in considerable quantities, notwithstanding the vast capital, the excellent coal, and, more important than all perhaps, the highly improved state of inland navigation in England; although I am aware that the English use of Swedes iron may be thought to be owing in some degree to its superior quality.

Sir, the true explanation of this appears to me to lie in the different prices of labor; and here I apprehend is the grand mistake in the argument of the Chairman of the Committee. He says it would cost the nation, as a nation, nothing to make our ore into iron. Now, I think it would cost us precisely that which we can worst afford; that is, great labor. Although bar iron is very properly considered a raw material in respect to its various future uses, yet,

as bar iron, the principal ingredient in its cost is labor. Of manual labor, no nation has more than a certain quantity, nor can it be increased at will. As to some operations, indeed, its place may be supplied by machinery; but there are other services which machinery cannot perform for it, and which it must perform for itself. A most important question for every nation, as well as for every individual, to propose to itself, is, how it can best apply that quantity of labor which it is able to perform? Labor is the great producer of wealth; it moves all other causes. If it call machinery to its aid, it is still employed not only in using the machinery, but in making it. Now, with respect to the quantity of labor, as we all know, different nations are differently circumstanced. Some need, more than anything, work for hands, others require hands for work; and if we ourselves are not absolutely in the latter class, we are still, most fortunately, very near it. I cannot find that we have those idle hands of which the Chairman of the Committee speaks. The price of labor is a conclusive and unanswerable refutation of that idea; it is known to be higher with us than in any other civilized state, and this is the greatest of all proofs of general happiness. Labor in this country is independent and proud. It has not to ask the patronage of capital, but capital solicits the aid of labor. This is the general truth in regard to the condition of our whole population, although in the large cities there are, doubtless, many exceptions. The mere capacity to labor in common agricultural employments gives to our young men the assurance of independence. We have been asked, sir, by the Chairman of the Committee, in a tone of some pathos, whether we will allow to the serfs of Russia and Sweden the benefit of making iron for us? Let me inform the gentleman, sir, that those same serfs do not earn more than seven cents a day, and that they work in these mines for that compensation because they are serfs. And let me ask the gentleman further, whether we have any labor in this country that cannot be better employed than in a business which does not yield the laborer more than seven cents a day? This, it appears to me, is the true question for our consideration. There is no reason for saying that we will work iron because we have mountains that contain the ore. We might for the same reason dig among our rocks for the scattered grains of gold and silver which might be found there. The true inquiry is, can we

produce the article in a useful state at the same cost, or nearly at the same cost, or at any reasonable approximation towards the same cost, at which we can import it?

Some general estimates of the price and profits of labor in those countries from which we import our iron might be formed by comparing the reputed products of different mines and their prices with the number of hands employed. The mines of Danemora are said to yield about 4,000 tons, and to employ in the mines 1,200 workmen. Suppose this to be worth $50 per ton; any one will find by computation that the whole product would not pay in this country for one quarter part of the necessary labor. The whole export of Sweden was estimated, a few years ago, at 400,000 ship-pounds, or about 54,000 tons. Comparing this product with the number of workmen usually supposed to be employed in the mines which produce iron for exportation, the result will not greatly differ from the foregoing. These estimates are general, and might not conduct us to a precise result; but we know, from intelligent travelers and eye-witnesses, that the price of labor in the Swedish mines does not exceed seven cents a day.[1]

The true reason, sir, why it is not our policy to compel our citizens to manufacture our own iron is, that they are far better employed. It is an unproductive business, and they are not poor enough to be obliged to follow it. If we had more of poverty, more of misery, and something of servitude, if we had an ignorant, idle, starving population, we might set up for iron makers against the world.

[1] The price of labor in Russia may be pretty well collected from Tooke's "View of the Russian Empire." "The workmen in the mines and the foundries are, indeed, all called master-people; but they distinguish themselves into masters, undermasters, apprentices, delvers, servants, carriers, washers, and separators. In proportion to their ability their wages are regulated, which proceed from 15 to upwards of 30 roubles per annum. The provisions which they receive from the magazines are deducted from this pay." The value of the rouble at that time (1799) was about 24 pence sterling, or 45 cents of our money.

"By the edict of 1799," it is added, "a laborer with a horse shall receive, daily, in summer 20 and in winter 12 copecks; a laborer without a horse, in summer 10, in winter 8 copecks."

A copeck is the hundredth part of a rouble, or about half a cent of our money. The price of labor may have risen, in some degree, since that period, but probably not much.

## WEBSTER: SPEECH OF 1846[1]

Sir, with the leave of the Senate, I shall proceed to consider the effects of this bill upon some of those interests which have been regarded as protected interests.

I shall not argue at length the question, whether the Government has committed itself to maintain interests that have grown up under laws such as have been passed for thirty years back. I will not argue the question, whether, looking to the policy indicated by the laws of 1789, 1816, 1824, 1828, 1832, and 1842, there has been ground for the industrious and enterprising people of the United States, engaged in home pursuits, to expect Government protection for internal industry. The question is, Do these laws, or do they not, from 1789 till the present time, constantly show and maintain a purpose, a policy, which might naturally induce men to invest property in manufactures, and to commit themselves to those pursuits in life? Without lengthened argument, I shall take this for granted.

But, sir, before I proceed further with this part of the case, I will take notice of what appears, latterly, to be an attempt, by the republication of opinions and expressions, arguments and speeches of mine, at an earlier and later period of life, to found against me a charge of inconsistency on this subject of the protective policy of the country. Mr. President, if it be an inconsistency to hold an opinion upon a subject at one time and in one state of circumstances, and to hold a different opinion upon the same subject at another time and in a different state of circumstances, I admit the charge. Nay, sir, I will go further; and in regard to questions which, from their nature, do not depend upon circumstances for their true and just solution, I mean constitutional questions, if it be an inconsistency to hold an opinion to-day, even upon such a question, and on that same question to hold a different opinion a quarter of a century afterwards, upon a more comprehensive view of the whole subject, with a more thorough investigation into the original purposes and objects of that Constitution, and especially after a more thorough exposition of those objects and purposes by those who framed it, and have been trusted to administer it, I should not shrink even

[1] Daniel Webster, Speech on the Bill to reduce the Duties on Imports, in the Senate, July 25 and 27, 1846.

from that imputation. I hope I know more of the Constitution of my country than I did when I was twenty years old. I hope I have contemplated its great objects more broadly. I hope I have read with deeper interest the sentiments of the great men who framed it. I hope I have studied with more care the condition of the country when the convention assembled to form it. And yet I do not know that I have much to retract or to change on these points.

But, sir, I am of the opinion of a very eminent person, who had occasion, not long since, to speak of this topic in another place. Inconsistencies of opinion, arising from changes of circumstances, are often justifiable. But there is one sort of inconsistency which is culpable. It is the inconsistency between a man's conviction and his vote; between his conscience and his conduct. No man shall ever charge me with an inconsistency like that. And now, sir, allow me to say, that I am quite indifferent, or rather thankful, to those conductors of the public press who think they cannot do better than now and then to spread my poor opinions before the public.

I have said many times, and it is true, that, up to the year 1824, the people of that part of the country to which I belong, being addicted to commerce, having been successful in commerce, their capital being very much engaged in commerce, were averse to entering upon a system of manufacturing operations. Every member in Congress from the State of Massachusetts, with the exception, I think, of one, voted against the act of 1824. But what were we to do? Were we not bound, after 1816 and 1824, to consider that the policy of the country was settled, had become settled, as a policy, to protect the domestic industry of the country by solemn laws? The leading speech[1] which ushered in the act of 1824 was called a speech for the "American System." The bill was carried principally by the Middle States. Pennsylvania and New York would have it so; and what were we to do? Were we to stand aloof from the occupations which others were pursuing around us? Were we to pick clean teeth on a constitutional doubt which a majority in the councils of the nation had overruled? No, sir; we had no option. All that was left us was to fall in with the settled policy of the country; because, if anything can ever settle the practical construction of the Constitution of the country, it must be these repeated

[1] That of Mr. Clay. See below, Chapter XX. (Ed.)

decisions. New England, then, did fall in. She went into manufacturing operations, not from original choice, but from the necessity of the circumstances in which the legislation of the country had placed her. And, for one, I resolved then, and have acted upon the resolution ever since, that, having compelled the Eastern States to go into these pursuits for a livelihood, the country was bound to fulfil the just expectations which it had inspired.

* * * * * * * * * * *

There seems to be a sedulous purpose of hostility to the manufacturing interests. I speak of the tenor and tendency, and the general spirit of this bill. It does prefer, by its enactments, and in its consequences, foreign labor to domestic labor. It does encourage the labor of foreign artisans over and above, and in preference to, the labor of our own artisans here in the United States. I aver it, and I am going to prove it. Now, if that is made out, is there a man in this chamber who will vote for this bill? And yet we are told from other quarters, that this is a bill of peace, that it will settle a vexed question. Depend upon it, it will settle nothing. It is calculated to raise a degree, I had almost said of resentment, at all events of surprise and indignation, not in one man's breast, but in the breasts of a million of people, now earning their bread, as they think, under laws and assurances that these laws shall be continued, which enable them to import the raw material and work upon it, and bring their labor into market, as advantageously as the labor of the foreign mechanic. Call you that a bill of peace which disturbs all these expectations? It is not peace; it is anything but peace.

Sir, there is an article, the growth of which is very interesting to the Western States, being well suited to the fertility of their soil. It is hemp. The manufacture of that article into cordage is essential to the navigating interests of the United States. This is one of the cases which I have mentioned, and with reference to which I wish to read several letters from highly respectable gentlemen.

* * * * * * * * * * *

And here, sir, I wish to advert to a general fact, worthy to be *recollected in all our political economy. The increase in the investments* of capital in great works of this kind tends to reduce the

profits on that capital. That is a necessary result. But then it has exactly the reverse action upon labor; for the more that capital is invested in these great operations, the greater is the call for labor, and therefore the ratio is here the other way, and the rates of labor increase as the profits of capital are diminished. Well, is there any thing *undemocratic* and unpopular in such a system as that? a system that causes a diminution of profits to the capitalist and an increase of remuneration to the hand of labor.

* * * * * * * * * * *

Sir, there is another view of this subject not uninteresting, and very fit to be taken. What is coal? A coarse and raw natural product. What is it which has created its value at the moment it comes to be consumed? Clearly, labor. It is the product of human labor; and that labor, while giving value to coal, has called for contributions from many other branches and varieties of human labor. Coal undug, and still in the mines, at Pottsville, is worth twenty cents per ton. At the place of consumption, at New York or Boston, it is worth $5.25 per ton. The difference is the value added to the original material by the hand of man; and to the creation of this value, farmers, merchants, tradesmen, mechanics, ship-builders, sailors, and those employed in the land transportation, have all contributed. To these, therefore, it has given employment. The population of Pottsville is said to consume a million of dollars annually of agricultural products; and another million, probably, in manufactured articles. Thus the miners, the farmers, and the mechanics stand side by side in this great interest. Shall they be protected against injurious foreign competition, or shall they not?

* * * * * * * * * * *

The interest of every laboring community requires diversity of occupations, pursuits, and objects of industry. The more that diversity is multiplied or extended, the better. To diversify employment is to increase employment, and to enhance wages. *And, sir, take this great truth; place it on the title-page of every book of political economy intended for the use of the United States; put it in every Farmer's Almanac; let it be the heading of the column in every*

mechanic's magazine; proclaim it everywhere, and make it a proverb, that ***where there is work for the hands of men, there will be work for their teeth.*** Where there is employment, there will be bread. It is a great blessing to the poor to have cheap food; but greater than that, prior to that, and of still higher value, is the blessing of being able to buy food by honest and respectable employment. Employment feeds, and clothes, and instructs. Employment gives health, sobriety, and morals. Constant employment and well-paid labor produce, in a country like ours, general prosperity, content, and cheerfulness. Thus happy have we seen the country. Thus happy may we long continue to see it.

* * * * * * * * * * *

# XX

## CLAY: SPEECH OF 1824[1]

ACCORDING to the opponents of the domestic policy, the proposed system will force capital and labor into new and reluctant employments; we are not prepared, in consequence of the high price of wages, for the successful establishment of manufactures, and we must fail in the experiment. We have seen that the existing occupations of our society, those of agriculture, commerce, navigation, and the learned professions, are overflowing with competitors, and that the want of employment is severely felt. Now what does this bill propose? To open a new and extensive field of business, in which all that choose may enter. There is no compulsion upon any one to engage in it. An option only is given to industry, to continue in the present unprofitable pursuits, or to embark in a new and promising one. The effect will be to lessen the competition in the old branches of business, and to multiply our resources for increasing our comforts and augmenting the national wealth. The alleged fact of the high price of wages is not admitted. The truth is that no class of society suffers more, in the present stagnation of business, than the laboring class. That is a necessary effect of the depression of agriculture, the principal business of the community. The wages of able-bodied men vary from \$5 to \$8 per month, and such has been the want of employment, in some parts of the Union, that instances have not been unfrequent of men working merely for the means of present subsistence. If the wages for labor here and in England are compared, they will be found not to be essentially different. I agree with the honorable gentleman from Virginia, that high wages are a proof of national prosperity; we differ only in the means by which that desirable end shall be attained. But, if the fact were true, that the wages of labor are high, I deny the correctness of the

[1] Henry Clay (1777–1852), Speech on American Industry, in the House of Representatives, March 30 and 31, 1824.

argument founded upon it. The argument assumes that natural labor is the principal element in the business of manufacture. That was the ancient theory. But the valuable inventions and vast improvements in machinery, which have been made within a few past years, have produced a new era in the arts. The effect of this change, in the powers of production, may be estimated, from what I have already stated in relation to England and to the triumphs of European artificial labor over the natural labor of Asia. In considering the fitness of a nation for the establishment of manufactures, we must no longer limit our views to the state of its population and the price of wages. All circumstances must be regarded, of which that is, perhaps, the least important. Capital, ingenuity in the construction and adroitness in the use of machinery, and the possession of the raw materials, are those which deserve the greatest consideration. All these circumstances (except that of capital, of which there is no deficiency) exist in our country in an eminent degree, and more than counterbalance the disadvantage, if it really existed, of the lower wages of labor in Great Britain. The dependence upon foreign nations for the raw material of any great manufacture has been ever considered as a discouraging fact. The state of our population is peculiarly favorable to the most extensive introduction of machinery. We have no prejudices to combat, no persons to drive out of employment. The pamphlet to which we have had occasion so often to refer, in enumerating the causes which have brought in England their manufactures to such a state of perfection, and which now enable them, in the opinion of the writer, to defy all competition, does not specify, as one of them, low wages. It assigns three: first, capital; secondly, extent and costliness of machinery; and, thirdly, steady and persevering industry. Notwithstanding the concurrence of so many favorable causes in our country for the introduction of the arts, we are earnestly dissuaded from making the experiment, and our ultimate failure is confidently predicted. Why should we fail? Nations, like men, fail in nothing which they boldly attempt, when sustained by virtuous purpose and firm resolution. I am not willing to admit this depreciation of American skill and enterprise. I am not willing to strike before an effort is made. All our past history exhorts us to proceed, and inspires us with animating hopes of success. Past predictions of our incapacity have failed, and present

predictions will not be realized. At the commencement of this government, we were told that the attempt would be idle to construct a marine adequate to the commerce of the country, or even to the business of its coasting trade. The founders of our government did not listen to these discouraging counsels; and—behold the fruits of their just comprehension of our resources! Our restrictive policy was denounced, and it was foretold that it would utterly disappoint all our expectations. But our restrictive policy has been eminently successful; and the share which our navigation now enjoys in the trade with France, and with the British West India islands, attests its victory. What were not the disheartening predictions of the opponents of the late war? Defeat, discomfiture, and disgrace, were to be the certain, but not the worst effect of it. Here, again, did prophecy prove false; and the energies of our country, and the valor and the patriotism of our people, carried us gloriously through the war. We are now, and ever will be, essentially an agricultural people. Without a material change in the fixed habits of the country, the friends of this measure desire to draw to it, as a powerful auxiliary to its industry, the manufacturing arts. The difference between a nation with and without the arts may be conceived by the difference between a keel-boat and a steamboat, combating the rapid torrent of the Mississippi. How slow does the former ascend, hugging the sinuosities of the shore, pushed on by her hardy and exposed crew, now throwing themselves in vigorous concert on their oars, and then seizing the pendant boughs of overhanging trees: she seems hardly to move; and her scanty cargo is scarcely worth the transportation! With what ease is she not passed by the steamboat, laden with the riches of all quarters of the world, with a crew of gay, cheerful, and protected passengers, now dashing into the midst of the current, or gliding through the eddies near the shore! Nature herself seems to survey with astonishment the passing wonder, and, in silent submission, reluctantly to own the magnificent triumphs, in her own vast dominion, of Fulton's immortal genius.

# XXI

## ADAMS: REPORT OF 1832[1]

### Home Competition and Export Tax

THE principal mass of taxation in Great Britain is by excise. By that alone she raises more than one hundred millions of dollars of yearly revenue. The Government of the United States have resorted to excises and direct taxes only upon occasions of emergency. The mode of levying all, or nearly all, the revenues of the Union, by impost upon articles of merchandise imported from abroad, was originally adopted, and has been perseveringly pursued, because it had always been considered as a maxim in statistics, that duties of impost were always paid by the consumer.

Such is, no doubt, the first, and superficial appearance of things. But the operation of all taxation, and especially of indirect taxation, is of a complicated nature upon the commercial intercourse and pecuniary concerns of mankind. The controversies which have resulted from the introduction and establishment of what has been termed the American system, looking to the protection of domestic manufactures, have given rise to two new doctrines of political economy; one of them advanced by the friends, and one by the opponents of that system; both, at first sight, highly paradoxical, both appearing, upon close examination, to be not entirely without foundation, and both, in the ardor of disputation, relied upon, it is believed, beyond just and rational warrant.

The opinion advanced by the friends of the protective system is, that the tendency of aggravating duties of impost upon articles imported from abroad, and holding no competition with similar articles of domestic manufacture, is to reduce, and not to increase, the price of the articles themselves.

[1] John Quincy Adams (1767–1848), Report of the Committee on Manufactures, in the House of Representatives, May 21, 1832.

The opinion sustained by the free trade party is, that the great mass of the duties of impost is paid, not by the consumer of the dutied articles, but by the producer of the article exported, to pay for the article upon which the impost was levied.

The doctrine, that duties of impost *cheapen* the price of the articles upon which they are levied, seems to conflict with the first dictates of common sense. But its supporters first appeal with confidence to the fact, that most of the articles upon which additional duties were levied by the tariff of 1828, have, since that time, considerably fallen in price—and then they argue that it must be so, by the excitement of *competition* in the market. It is certainly contrary to the natural course of things, that an addition to the cost should be a reduction of the price of an article. True it is, that the duty gives a spur to the production of the article at home. The price of any article in the market must always depend upon the relative condition of the demand and supply at the time and place of sale. But very slight variations of time, or place, affect often, to a very great extent, the relative proportion of the demand and supply, and, consequently, the price of the article. No safe conclusion can be drawn from the fact that, subsequent to the tariff of 1828, the prices of the articles upon which the duties were then increased, have fallen, unless from other circumstances it can be shown, that the increase of the duty was the *cause* of the fall in price; nor will it be sufficient, to prove so strange a paradox, to account for it by the excitement of *competition.* Wherever there is a profitable market, there will be *competition.* Had the tariff of 1828 never been enacted, the *competition* in our markets would have been as great, and would have been as effectual to reduce the prices, as it has been with the aggravation of duties. In that *competition* our own manufactures might not indeed have shared—but it would have existed in all its force between those who furnished the supply, and could not have failed to reduce the prices to the level of the moderate profit necessary to the existence of the trade.

But the duty upon the article imported from abroad *enabled* the domestic producer to enter into competition with the importer from abroad. So long as this competition continues, the duty operates as a bounty or premium to the domestic manufacturer. But by whom is it paid? Certainly by the purchaser of the article, whether of

foreign or of domestic manufacture. The duty constitutes a part of the price of the whole mass of the article in the market. It is substantially paid upon the article of domestic manufacture as well as upon that of foreign production. Upon one it is a bounty; upon the other a burden; and the repeal of the tax must operate as an equivalent reduction of the price of the article, whether foreign or domestic. We say so long as the importation continues, the duty must be paid by the purchaser of the article. Some portion of it, however, is, for a short interval of time, paid by the foreigner against whose trade the domestic competitor is brought forward. It affects him as a reduction of his profits, which he endures for a time, but under the pressure of which he is finally compelled to withdraw from the market. While this struggle continues, the duty is paid by the foreigner, or by the importing merchant here. The purchaser and consumer here are relieved from the burden of the duty, and may perhaps obtain the goods cheaper than if they were exonerated from the duty altogether. But this relief is purchased by injustice, at the expense not only of the foreign manufacturer, but of the importing merchant, till the duty becomes prohibitory, and then the foreign manufacturer, the importing merchant, the shipper, the mariner, and the whole class of citizens to whom the importation gave occupation and subsistence, suffer by the extinction of the trade, precisely to the same extent that the profits of the domestic manufacturer are enhanced by the bounty paid to him for his competition with the foreigner. This struggle, if the statements often made by the friends of the tariff are correct, is sometimes carried on by the manufacturers to a very extravagant and desperate extent. It has even gravely been asserted, that, upon the passage of the tariff act of 1828, the British owners of forges and furnaces reduced the price of their iron not less than eight dollars a ton, to retain the control of the American market; an operation by which, as has been shown by the memorial of the Free Trade Convention to Congress, they must have incurred a loss of near five millions of dollars a year, to retain the profits upon yearly sales to the amount of perhaps two hundred and sixty thousand dollars. It is very certain, therefore, that the reduction of eight dollars a ton upon the price of British iron in 1828, though contemporaneous with our tariff act, was in no wise connected with it in the relation of cause and effect. We may, and

probably do, often greatly exaggerate to ourselves the immensity of exertions and of sacrifices made by the British manufacturers to retain and preserve in their own hands the control of foreign markets. But that such exertions and sacrifices are and will be made by large manufacturing establishments, in which extensive capitals are employed, cannot be doubted. Whenever they are made, and so long as they are continued, to counteract the effects of tariff duties in foreign countries, the duties are paid by them, and the purchaser of the goods in the foreign country obtains them freed from the duty at the expense of the foreign manufacturer. But this career of losing trade cannot continue long. In the competitions between different lines of steamboats and stages, we have sometimes seen the rival interests underbidding each other, till the traveller has been treated gratuitously with his fare. But the result even of a very short contest of that nature, proves utterly ruinous to one, if not to both the contending establishments. And so it is, and must be with any reduction of price in the market upon articles furnished partly by importation from abroad, and partly by domestic industry, which ensues upon the levy of an additional duty upon the article imported from abroad.

The incidental effect of competition in the market, excited on the part of the domestic manufacturer, by the aggravation of duty upon the corresponding article imported from abroad, to reduce the price of the article, must be transient and momentary. The general and permanent effect must be to increase the price of the article to the extent of the additional duty, and it is then paid by the consumer. If it were not so—if the general effect of adding to a duty were to make the price of the article upon which it is levied less—the converse of the proposition would also be true; and the operation for increasing the price of the domestic article would be to repeal the duty upon the same article imported—an experiment which the friends of our internal industry will not be desirous of making. We cannot subscribe, therefore, to the doctrine that the duties of impost, protective of our own manufactures, are paid by the foreign merchant or manufacturer. Nor can we more readily believe that they are paid by the purchaser of the articles exported from our country to pay for the importations which we receive in return.

It is contended that, by excluding the foreign manufacturer of cotton from our own markets, we disable him from purchasing the raw material produced in our own country; but if, by the exclusion of the foreigner, the effect of the duty is to bring into the market our own manufacturer in his place, the market for the raw material is in no wise diminished; it has only changed its place. Instead of shipping his cotton to Liverpool or Glasgow, the Southern planter sends it to Providence or Boston. The demand for the article is not diminished by the diminution of importations from abroad. Whatever falling off there may be of shipping for foreign markets, is supplied by the increase of enrolled tonnage and the coasting trade.

The argument of the South has been sometimes stated in another form. It has been said that the portion of the impost duties paid by the inhabitants of the Northern and manufacturing States, instead of being burdensome, is actually profitable to them. That, to the manufacturing interests themselves, instead of its being a tax, it is a bounty, or gratuitous donation to them by the nation, made at the expense of those portions of the Union where there are no manufacturing establishments. A contrasted view is taken of the population, soil, and climate of the northern and southern sections of the Union. In the North, it is said, the climate is rugged—the soil barren—the whole population white and free. The land will not feed its inhabitants. They are driven by necessity to the ocean, to the wilderness, or to the establishment of manufactures. These are their only resources for arresting the tide of emigration. In the South, the climate is mild and genial, the soil fertile, and the population divided in nearly equal numbers into black and white—masters and slaves. The cultivation of the land is performed by the colored population. The planter cannot change his occupation. He is rooted to the soil. Manufactures cannot be established, because slaves are both morally and physically disabled from working in them. They are, besides, very apt to set fire to the buildings, as the experience of certain Yankees has taught them, who, in defiance of the laws of nature, did recently attempt to set up some manufacture in the neighborhood of Charleston. The duties levied then upon articles of foreign manufacture, for the protection of domestic industry, must therefore always operate to the benefit of the

Northern, and to the injury of the Southern section of the Union. They are irreconcilable interests; and the planter of the South cannot and will not submit to the sacrifice of *his* interest for the benefit of the Northern manufacturer, for that would reduce him to a state of colonial vassalage.

This argument is approached with painful reluctance. It is believed to be here candidly stated, and as it has been, time after time, repeated, by some of the ablest and most intelligent statesmen of the South; and as it is believed to contain the whole substance of the Southern argument against the protective system, it will be proper to examine it in the spirit of candor and of kindness, dictated no less by a feeling of sympathy for our brethren and countrymen, than by an anxious solicitude for the preservation of the Union.

The first remark which obtrudes itself upon the statement of this argument is, that it strikes directly at the heart of the Union itself. It presents two great, transcendent, opposite, and irreconcilable interests, in deadly hostility to each other; each pervading the two great Atlantic sections of the country, each operating within its appropriate domain, with the irresistible force of a law of nature, and leading to the fatal and unavoidable conclusion that between two large masses of mankind, thus situated in natural conflict with each other, no bond of union under one and the same government, even partaking of a federal character, can be maintained. It will be doing no injustice to more than one distinguished and influential statesman of the South to affirm, that his mind has been made up to this result. Nor is it possible to observe the political movements in progress at this time in the part of the country where the excitement against the protective system principally prevails, without believing that the effort of the leading spirits among them is to turn the current of popular sentiment to that conclusion:—to calculate the value of the Union.

But if this high ground is taken in one quarter of the common country, what choice or alternative is left to the other? The South, in the person of her champion, says—I am a planter and cultivate my land by slaves—I cannot quit the soil—I cannot change my occupation—my slaves are my subsistence, as well as my property, and they cannot be made to work at manufactures—my first want is to sell my crop, as dear as possible, and my second, to buy

manufactured articles as cheap as possible in return. All protection of domestic manufactures, by duties levied upon those of my customers, who purchase my plantation's produce, and work it up into manufactured articles for my use, is an invasion of my rights, a depredation upon my property—I cannot manufacture myself, and I will not suffer you to manufacture for me: I prefer to purchase the fabric from the foreigner, to whom I supply the raw material. Manufactures are necessary for your subsistence, because you have a cold climate, a barren soil, and no slaves; but I will not bear a tax upon the negro cloths of Manchester, to enable you to supply me the same article equally cheap, because your gain must be my loss, and because your prosperity must, in the nature of things, be incompatible with mine.

In this view of the subject, the interest of the South is identified with that of the foreign rival and competitor of the Northern manufacturer, against *him*; and for his ruin, the Southern planter and the British manufacturer are colleagued. How strange the association! How deeply it conflicts with the whole history of our revolutionary war! What a satire it speaks upon all our institutions!

It cannot be true. There are theories in politics and morals, as well as in the science of mind, the fallacy of which is far more easily detected in the absurdity of the conclusions at which they arrive, than in the process of reason by which they travel. When Mandeville, by a commentary upon the fable of the bees, undertook to prove that private vices were public benefits, he made an ingenious book, which has, perhaps, never been very satisfactorily answered, but to the conclusions of which no man of correct moral feeling can assent. When Berkeley, from the deepest recesses of philosophy, raised an argument to prove that mind has no conclusive evidence of the existence of matter, he was said to have demonstrated, beyond all possibility of reply, that which no man in his senses could believe. When we are told that the cotton planter of the South, and the manufacturer of Pennsylvania, or of New England, have interests so diametrically and irreconcilably opposite to each other, that they cannot remain permanently associated as members of the same community, we answer, in the language of the Roman moralist and poet, "*Incredulus odi.*" We disbelieve, and we hate a doctrine which appears to us to contain, in itself, a satire

upon human nature; or, at least, to solve itself into that melancholy and exploded theory of Hobbes, that the state of nature, between man and man, is a state of war. For were it true that the interests of the planter and the manufacturer were irreconcilable with each other, as members of the same community, what must be the necessary and unavoidable consequence of the dissolution of the tie between them as fellow citizens, represented in the same legislative assemblies, authorized to enact laws binding upon them both? For, suppose that common tie to be dissolved, and what would be the relation then subsisting between them? They would remain in the same relative geographical position to each other, each still employed in the same occupations, and with the same irreconcilable and opposite interests, without that link of union between them, which had existed by their representation in one common legislature; with the impulse of mutual repulsion, aggravated by their separation, and with all the principles of attraction dissolved, and vanished into air. Could it be otherwise, than that the irreconcilable and opposite interests should speedily fret and kindle into war, and then how would their relations stand? Must not the weaker party, on which side soever it might fall, fly for assistance to a foreign power? Nay, are there not elements in the very nature of the contest itself, which must drive the planter nation, severed from their present associates, to Great Britain for alliance, and would not that alliance be but another name for protection? Must not recolonization prove the inevitable doom of that nation so constituted and so neighbored? And what next? The irreconcilable and opposite interests remain in all their force, and with redoubled aggravation. War, inextinguishable, or exterminating war, between the brothers of this severed continent, and a foreign umpire to perpetuate, or to adjust their strife, not according to the interests of either of the parties, but according to her own.

## XXII

## CLEVELAND: MESSAGE OF 1887[1]

*To the Congress of the United States:*

YOU are confronted at the threshold of your legislative duties, with a condition of the national finances which imperatively demands immediate and careful consideration.

The amount of money annually exacted, through the operation of present laws, from the industries and necessities of the people, largely exceeds the sum necessary to meet the expenses of the Government.

When we consider that the theory of our institutions guarantees to every citizen the full enjoyment of all the fruits of his industry and enterprise, with only such deduction as may be his share towards the careful and economical maintenance of the Government which protects him, it is plain that the exaction of more than this is indefensible extortion, and a culpable betrayal of American fairness and justice. This wrong inflicted upon those who bear the burden of national taxation, like other wrongs, multiplies a brood of evil consequences. The public treasury, which should only exist as a conduit conveying the people's tribute to its legitimate objects of expenditure, becomes a hoarding-place for money needlessly withdrawn from trade and the people's use, thus crippling our national energies, suspending our country's development, preventing investment in productive enterprise, threatening financial disturbance, and inviting schemes of public plunder.

This condition of our treasury is not altogether new; and it has more than once of late been submitted to the people's representatives in the Congress, who alone can apply a remedy. And yet the situation still continues, with aggravated incidents, more than ever presaging financial convulsion and wide-spread disaster.

* * * * * * * * * * *

[1] Grover Cleveland (1837–1908), Message to Congress of December 6, 1887.

Our scheme of taxation, by means of which this needless surplus is taken from the people and put into the public treasury, consists of a tariff or duty levied upon importations from abroad and internal-revenue taxes levied upon the consumption of tobacco and spirituous and malt liquors. It must be conceded that none of the things subjected to internal-revenue taxation are, strictly speaking, necessaries; there appears to be no just complaint of this taxation by the consumers of these articles, and there seems to be nothing so well able to bear the burden without hardship to any portion of the people.

But our present tariff laws, the vicious, inequitable, and illogical source of unnecessary taxation, ought to be at once revised and amended. These laws, as their primary and plain effect, raise the price to consumers of all articles imported and subject to duty, by precisely the sum paid for such duties. Thus the amount of the duty measures the tax paid by those who purchase for use these imported articles. Many of these things, however, are raised or manufactured in our own country, and the duties now levied upon foreign goods and products are called protection to these home manufactures, because they render it possible for those of our people who are manufacturers, to make these taxed articles and sell them for a price equal to that demanded for the imported goods that have paid customs duty. So it happens that while comparatively a few use the imported articles, millions of our people, who never use and never saw any of the foreign products, purchase and use things of the same kind made in this country, and pay therefor nearly or quite the same enhanced price which the duty adds to the imported articles. Those who buy imports pay the duty charged thereon into the public treasury, but the great majority of our citizens, who buy domestic articles of the same class, pay a sum at least approximately equal to this duty to the home manufacturer. This reference to the operation of our tariff laws is not made by way of instruction, but in order that we may be constantly reminded of the manner in which they impose a burden upon those who consume domestic products as well as those who consume imported articles, and thus create a tax upon all our people.

It is not proposed to entirely relieve the country of taxation. It must be extensively continued as the source of the Government's income; and in a readjustment of our tariff the interests of American

labor engaged in manufacture should be carefully considered, as well as the preservation of our manufacturers. It may be called protection, or by any other name, but relief from the hardships and dangers of our present tariff laws, should be devised with especial precaution against imperiling the existence of our manufacturing interests. But this existence should not mean a condition which, without regard to the public welfare or a national exigency, must always insure the realization of immense profits instead of moderately profitable returns. As the volume and diversity of our national activities increase, new recruits are added to those who desire a continuation of the advantages which they conceive the present system of tariff taxation directly affords them. So stubbornly have all efforts to reform the present condition been resisted by those of our fellow-citizens thus engaged, that they can hardly complain of the suspicion, entertained to a certain extent, that there exists an organized combination all along the line to maintain their advantage.

We are in the midst of centennial celebrations, and with becoming pride we rejoice in American skill and ingenuity, in American energy and enterprise, and in the wonderful natural advantages and resources developed by a century's national growth. Yet when an attempt is made to justify a scheme which permits a tax to be laid upon every consumer in the land for the benefit of our manufacturers, quite beyond a reasonable demand for governmental regard, it suits the purposes of advocacy to call our manufactures infant industries, still needing the highest and greatest degree of favor and fostering care that can be wrung from Federal legislation.

It is also said that the increase in the price of domestic manufactures resulting from the present tariff is necessary in order that higher wages may be paid to our workingmen employed in manufactories, than are paid for what is called the pauper labor of Europe. All will acknowledge the force of an argument which involves the welfare and liberal compensation of our laboring people. Our labor is honorable in the eyes of every American citizen; and as it lies at the foundation of our development and progress, it is entitled, without affectation or hypocrisy, to the utmost regard. The standard of our laborers' life should not be measured by that of any other country less favored, and they are entitled to their full share of all our advantages.

By the last census it is made to appear that of the 17,392,099 of our population engaged in all kinds of industries . . . 3,837,112 are classed as employed in manufacturing and mining.

For present purposes, however, the last number given should be considerably reduced. Without attempting to enumerate all, it will be conceded that there should be deducted from those which it includes 375,413 carpenters and joiners, 285,401 milliners, dressmakers, and seamstresses, 172,726 blacksmiths, 133,576 tailors and tailoresses, 102,473 masons, 76,241 butchers, 41,309 bakers, 22,083 plasterers, and 4,891 engaged in manufacturing agricultural implements, amounting in the aggregate to 1,214,023, leaving 2,623,089 persons employed in such manufacturing industries as are claimed to be benefited by a high tariff.

To these the appeal is made to save their employment and maintain their wages by resisting a change. There should be no disposition to answer such suggestions by the allegation that they are in a minority among those who labor, and therefore should forego an advantage, in the interest of low prices for the majority; their compensation, as it may be affected by the operation of tariff laws, should at all times be scrupulously kept in view; and yet with slight reflection they will not overlook the fact that they are consumers with the rest; that they, too, have their own wants and those of their families to supply from their earnings, and that the price of the necessaries of life, as well as the amount of their wages, will regulate the measure of their welfare and comfort.

But the reduction of taxation demanded should be so measured as not to necessitate or justify either the loss of employment by the working man nor the lessening of his wages; and the profits still remaining to the manufacturer, after a necessary readjustment, should furnish no excuse for the sacrifice of the interests of his employés either in their opportunity to work or in the diminution of their compensation. Nor can the worker in manufactures fail to understand that while a high tariff is claimed to be necessary to allow the payment of remunerative wages, it certainly results in a very large increase in the price of nearly all sorts of manufactures, which, in almost countless forms, he needs for the use of himself and his family. He receives at the desk of his employer his wages, and perhaps before he reaches his home is obliged, in a purchase for

family use of an article which embraces his own labor, to return in the payment of the increase in price which the tariff permits, the hard-earned compensation of many days of toil.

The farmer and the agriculturist who manufacture nothing, but who pay the increased price which the tariff imposes, upon every agricultural implement, upon all he wears and upon all he uses and owns, except the increase of his flocks and herds and such things as his husbandry produces from the soil, is invited to aid in maintaining the present situation; and he is told that a high duty on imported wool is necessary for the benefit of those who have sheep to shear, in order that the price of their wool may be increased. They of course are not reminded that the farmer who has no sheep is by this scheme obliged, in his purchases of clothing and woolen goods, to pay a tribute to his fellow farmer as well as to the manufacturer and merchant; nor is any mention made of the fact that the sheep-owners themselves and their households, must wear clothing and use other articles manufactured from the wool they sell at tariff prices, and thus as consumers must return their share of this increased price to the tradesman.

I think it may be fairly assumed that a large proportion of the sheep owned by the farmers throughout the country are found in small flocks numbering from twenty-five to fifty. The duty on the grade of imported wool which these sheep yield, is ten cents each pound if of the value of thirty cents or less, and twelve cents if of the value of more than thirty cents. If the liberal estimate of six pounds be allowed for each fleece, the duty thereon would be sixty or seventy-two cents, and this may be taken as the utmost enhancement of its price to the farmer by reason of this duty. Eighteen dollars would thus represent the increased price of the wool from twenty-five sheep and thirty-six dollars that from the wool of fifty sheep; and at present values this addition would amount to about one-third of its price. If upon its sale the farmer receives this or a less tariff profit, the wool leaves his hands charged with precisely that sum, which in all its changes, will adhere to it, until it reaches the consumer. When manufactured into cloth and other goods and material for use, its cost is not only increased to the extent of the farmer's tariff profit, but a further sum has been added for the benefit of the manufacturer under the operation of other tariff laws. In the mean time

the day arrives when the farmer finds it necessary to purchase woolen goods and material to clothe himself and family for the winter. When he faces the tradesman for that purpose he discovers that he is obliged not only to return in the way of increased prices, his tariff profit on the wool he sold, and which then perhaps lies before him in manufactured form, but that he must add a considerable sum thereto to meet a further increase in cost caused by a tariff duty on the manufacture. Thus in the end he is aroused to the fact that he has paid upon a moderate purchase, as a result of the tariff scheme, which, when he sold his wool seemed so profitable, an increase in price more than sufficient to sweep away all the tariff profit he received upon the wool he produced and sold.

When the number of farmers engaged in wool-raising is compared with all the farmers in the country, and the small proportion they bear to our population is considered; when it is made apparent that, in the case of a large part of those who own sheep, the benefit of the present tariff on wool is illusory; and, above all, when it must be conceded that the increase of the cost of living caused by such tariff, becomes a burden upon those with moderate means and the poor, the employed and unemployed, the sick and well, and the young and old, and that it constitutes a tax which, with relentless grasp, is fastened upon the clothing of every man, woman, and child in the land, reasons are suggested why the removal or reduction of this duty should be included in a revision of our tariff laws.

In speaking of the increased cost to the consumer of our home manufactures, resulting from a duty laid upon imported articles of the same description, the fact is not overlooked that competition among our domestic producers sometimes has the effect of keeping the price of their products below the highest limit allowed by such duty. But it is notorious that this competition is too often strangled by combinations quite prevalent at this time, and frequently called trusts, which have for their object the regulation of the supply and price of commodities made and sold by members of the combination. The people can hardly hope for any consideration in the operation of these selfish schemes.

If, however, in the absence of such combination, a healthy and free competition reduces the price of any particular dutiable article of home production, below the limit which it might otherwise reach

under our tariff laws, and if, with such reduced price, its manufacture continues to thrive, it is entirely evident that one thing has been discovered which should be carefully scrutinized in an effort to reduce taxation.

The necessity of combination to maintain the price of any commodity to the tariff point, furnishes proof that some one is willing to accept lower prices for such commodity, and that such prices are remunerative; and lower prices produced by competition prove the same thing. Thus where either of these conditions exist, a case would seem to be presented for an easy reduction of taxation.

* * * * * * * * * * *

The difficulty attending a wide and fair revision of our tariff laws is not underestimated. It will require on the part of the Congress great labor and care, and especially a broad and national contemplation of the subject, and a patriotic disregard of such local and selfish claims as are unreasonable and reckless of the welfare of the entire country.

* * * * * * * * * * *

The radical reduction of the duties imposed upon raw material used in manufactures, or its free importation, is of course an important factor in any effort to reduce the price of these necessaries; it would not only relieve them from the increased cost caused by the tariff on such material, but the manufactured product being thus cheapened, that part of the tariff now laid upon such product, as a compensation to our manufacturers for the present price of raw material, could be accordingly modified. Such reduction, or free importation, would serve beside to largely reduce the revenue. It is not apparent how such a change can have any injurious effect upon our manufacturers. On the contrary, it would appear to give them a better chance in foreign markets with the manufacturers of other countries, who cheapen their wares by free material. Thus our people might have the opportunity of extending their sales beyond the limits of home consumption—saving them from the depression, interruption in business, and loss caused by a glutted domestic market, and affording their employés more certain and steady labor, with its resulting quiet and contentment. . . .

Our progress toward a wise conclusion will not be improved by dwelling upon the theories of protection and free trade. This savors

too much of bandying epithets. It is a condition which confronts us —not a theory. Relief from this condition may involve a slight reduction of the advantages which we award our home productions, but the entire withdrawal of such advantages should not be contemplated. The question of free trade is absolutely irrelevant; and the persistent claim made in certain quarters, that all efforts to relieve the people from unjust and unnecessary taxation are schemes of so-called free-traders, is mischievous and far removed from any consideration for the public good.

The simple and plain duty which we owe the people is to reduce taxation to the necessary expenses of an economical operation of the Government, and to restore to the business of the country the money which we hold in the Treasury through the perversion of governmental powers. These things can and should be done with safety to all our industries, without danger to the opportunity for remunerative labor which our workingmen need, and with benefit to them and all our people, by cheapening their means of subsistence and increasing the measure of their comforts.

# XXIII

## McKINLEY: SPEECH ON THE MILLS BILL[1]

### What is a Revenue Tariff?

THIS brings us face to face, therefore, with the two opposing systems, that of a revenue as distinguished from a protective tariff, and upon their respective merits they must stand or fall. Now, what are they? First, what is a revenue tariff? Upon what principle does it rest? It is a tariff or tax placed upon such articles of foreign production imported here as will produce the largest revenue with the smallest tax; or, as Robert J. Walker, late Secretary of the Treasury and author of the tariff of 1846, from whom the advocates of the measure draw their inspiration, put it:

"The only true maxim is that which experience demonstrates will bring in each case the largest revenue at the lowest rate of duty, and that no duty be imposed upon any article above the lowest rate which will yield the largest amount of revenue. The revenue (said Mr. Walker) from ad valorem duties last year (1845) exceeded that realized from specific duties, although the average of the ad valorem duties was only 23.57 per cent. and the average of the specific duties 41.30 per cent., presenting another strong proof that the lower duties increase the revenue."

To secure larger revenue from lower duties necessitates largely increased importations, and if these compete with domestic products the latter must be diminished or find other and distant and I may say impossible markets or get out of the way altogether. A genuine revenue tariff imposes no tax upon foreign importations the like of which are produced at home, or, if produced at home, in quantities not capable of supplying the home consumption, in which case it may be truthfully said the tax is added to the foreign cost and is paid by the consumer.

[1] William McKinley (1843–1901), Speech on the Mills Bill, in the House of Representatives, May 18, 1888.

A revenue tariff seeks out those articles which domestic production can not supply, or only inadequately supply, and which the wants of our people demand, and imposes the duty upon them, and permits as far as possible the competing foreign product to be imported free of duty. This principle is made conspicuous in the bill under consideration; for example, wool, a competing foreign product, which our own flock-masters can fully supply for domestic wants, is put upon the free list, while sugar, with a home product of only one-eleventh of the home consumption, is left dutiable.

Any tax levied upon a foreign product which is a necessity to our people, and which we can not fully supply, will produce revenue in amount only measured by our necessities and ability to buy. In a word, foreign productions not competing with home productions are the proper subjects for taxation under a revenue tariff, and in case these do not furnish the requisite revenue a low duty is put upon the foreign product competing with the domestic one—low enough to encourage and stimulate importations, and low enough to break down eventually domestic competition. For example, the duty proposed under this bill upon cotton bagging will extinguish the industry here, and under its provisions we would import all of that product from Calcutta and Dundee. A large revenue would come from this source, because the foreign would take the place of the domestic production. This duty is a revenue one, and gives no protection whatever to the home producer. If it did it would not be a revenue tariff. As the Cobden school of political science puts it, "The moment it is made clear that a tax is a benefit to home producers then the free-trade dogma condemns it. The test is simple and easy of application. Free-trade or a revenue tariff does not allow any import duties being imposed on such articles as are likewise produced at home." Or if produced at home a revenue tariff would soon destroy their production.

## What is a Protective Tariff?

What is a protective tariff? It is a tariff upon imports so adjusted as to secure the necessary revenue, and judiciously imposed upon those foreign products the like of which are produced at home or the like of which we are capable of producing at home. It imposes

the duty upon the competing foreign product; it makes it bear the burden or duty, and, as far as possible, luxuries only excepted, permits the non-competing foreign product to come in free of duty. Articles of common use, comfort, and necessity which we can not produce here it sends to the people untaxed and free from custom-house exactions. Tea, coffee, spices, and drugs are such articles, and under our system are upon the free list. It says to our foreign competitor, If you want to bring your merchandise here, your farm products here, your coal and iron ore, your wool, your salt, your pottery, your glass, your cottons and woolens, and sell alongside of our producers in our markets, we will make your product bear a duty; in effect, pay for the privilege of doing it. Our kind of a tariff makes the competing foreign article carry the burden, draw the load, supply the revenue; and in performing this essential office it encourages at the same time our own industries and protects our own people in their chosen employments. That is the mission and purpose of a protective tariff. That is what we mean to maintain, and any measure which will destroy it we shall firmly resist, and if beaten on this floor, we will appeal from your decision to the people, before whom parties and policies must at last be tried. We have free trade among ourselves throughout thirty-eight States and the Territories and among sixty millions of people. Absolute freedom of exchange within our own borders and among our own citizens is the law of the Republic. Reasonable taxation and restraint upon those without is the dictate of enlightened patriotism and the doctrine of the Republican party.

Free trade in the United States is founded upon a community of equalities and reciprocities. It is like the unrestrained freedom and reciprocal relations and obligations of a family. Here we are one country, one language, one allegiance, one standard of citizenship, one flag, one Constitution, one nation, one destiny. It is otherwise with foreign nations, each a separate organism, a distinct and independent political society organized for its own, to protect its own, and work out its own destiny. We deny to those foreign nations free trade with us upon equal terms with our own producers. The foreign producer has no right or claim to equality with our own. He is not amenable to our laws. There are resting upon him none of the obligations of citizenship. He pays no taxes.

He performs no civil duties; is subject to no demands for military service. He is exempt from State, county, and municipal obligations. He contributes nothing to the support, the progress, and glory of the nation. Why should he enjoy unrestrained equal privileges and profits in our markets with our producers, our labor, and our taxpayers? Let the gentleman who follows me answer. We put a burden upon his productions, we discriminate against his merchandise, because he is alien to us and our interests, and we do it to protect our own, defend our own, preserve our own who are always with us in adversity and prosperity, in sympathy and purpose, and, if necessary, in sacrifice. That is the principle which governs us. I submit it is a patriotic and righteous one. In our own country, each citizen competes with the other in free and unresentful rivalry, while with the rest of the world all are united and together in resisting outside competition as we would foreign interference.

Free foreign trade admits the foreigner to equal privileges with our own citizens. It invites the product of foreign cheap labor to this market in competition with the domestic product, representing higher and better paid labor. It results in giving our money, our manufactures, and our markets to other nations, to the injury of our labor, our tradespeople, and our farmers. Protection keeps money, markets, and manufactures at home for the benefit of our own people.

It is scarcely worth while to more than state the proposition that taxation upon a foreign competing product is more easily paid and less burdensome than taxation upon the non-competing product. In the latter it is always added to the foreign cost, and therefore paid by the consumer, while in the former, where the duty is upon the competing product, it is largely paid in the form of diminished profits to the foreign producer. It would be burdensome beyond endurance to collect our taxes from the products, professions, and labor of our own people.

* * * * * * * * * * *

## The General Effect of Protection

I now come to consider the general effect of the protective system upon our people and their employments. There is no conflict of interests and should be none between the several classes of producers and the consumers in the United States. Their interests are

one, interrelated and interdependent. That which benefits one benefits all; one man's work has relation with every other man's work in the same community; each is an essential part of the grand result to be attained, and that statesmanship which would seek to array the one against the other for any purpose is narrow, unworthy, and unpatriotic. The President's message is unhappily in that direction. The discussion had on this floor has taken that turn. Both have been calculated to create antagonism where none existed.

The farmer, the manufacturer, the laborer, the tradesman, and the producer and the consumer all have a common interest in the maintenance of a protective tariff. All are alike and equally favored by the system which you seek to overthrow. It is a national system, broad and universal in its application; if otherwise it should be abandoned. It can not be invoked for one section or one interest to the exclusion of others. It must be general in its application within the contemplation of the principle upon which the system is founded. We have been living under it for twenty-seven continuous years, and it can be asserted with confidence that no country in the world has achieved such industrial advancement, and such marvelous progress in arts, science, and civilization as ours. Tested by its results, it has surpassed all other revenue systems.

From 1789 to 1888, a period of ninety-nine years, there have been forty-seven years when a Democratic revenue-tariff policy has prevailed, and fifty-two years under the protective policy, and it is a noteworthy fact that the most progressive and prosperous periods of our history in every department of human effort and material development were during the fifty-two years when the protective party was in control and protective tariffs were maintained; and the most disastrous years—years of want and wretchedness, ruin and retrogression, eventuating in insufficient revenues and shattered credits, individual and national—were during the free-trade or revenue-tariff eras of our history. No man living who passed through any of the latter periods but would dread their return, and would flee from them as he would escape from fire and pestilence; and I believe the party which promotes their return will merit and receive popular condemnation. What is the trouble with our present condition? No country can point to greater prosperity or more enduring evidences of substantial progress among all the people. Too much

money is being collected, it is said. We say stop it; not by indiscriminate and vicious legislation, but by simple business methods. Do it on simple, practical lines and we will help you. Buy up the bonds, objectionable as it may be, and pay the nation's debts, if you can not reduce taxation. You could have done this long ago. Nobody is chargeable for the failure and delay but your own Administration.

Who is objecting to our protective system? From what quarter does the complaint come? Not from the enterprising American citizen; not from the manufacturer; not from the laborer, whose wages it improves; not from the consumer, for he is fully satisfied, because under it he buys a cheaper and a better product than he did under the other system; not from the farmer, for he finds among the employés of the protected industries his best and most reliable customers; not from the merchant or the tradesman, for every hive of industry increases the number of his customers and enlarges the volume of his trade. Few, indeed, have been the petitions presented to this House asking for any reduction of duties upon imports. None, that I have seen or heard of, and I have watched with the deepest interest the number and character of these petitions that I might gather from them the drift of public sentiment—I say I have seen none asking for the passage of this bill, or for any such departure from the fiscal policy of the Government so long recognized and followed, while against this legislation there has been no limit to petitions, memorials, prayers, and protests, from producer and consumer alike.

* * * * * * * * * * *

## A Home Market

Why, Mr. Chairman, the establishment of a furnace or factory or mill in any neighborhood has the effect at once to enhance the value of all property and all values for miles surrounding it. They produce increased activity. The farmer has a better and a nearer market for his products. The merchant, the butcher, the grocer, have an increased trade. The carpenter is in greater demand; he is called upon to build more houses. Every branch of trade, every avenue of labor, will feel almost immediately the energizing influence of a new

industry. The truck farm is in demand; the perishable products, the fruits, the vegetables, which in many cases will not bear exportation and for which a foreign market is too distant to be available, find a constant and ready demand at good paying prices.

What the agriculturist of this country wants more than anything else, after he has gathered his crop, are consumers, consumers at home, men who do not produce what they eat, who must purchase all they consume; men who are engaged in manufacturing, in mining, in cotton-spinning, in the potteries, and in the thousands of productive industries which command all their time and energy, and whose employments do not admit of their producing their own food.

The American agriculturist further wants these consumers near and convenient to his field of supply. Cheap as inland transportation is, every mile saved is money made. Every manufacturing establishment in the United States, wherever situated, is of priceless value to the farmers of the country. The six manufacturing States of New England aptly illustrate the great value of a home market to the Western farmer. These States have reached the highest perfection in skill and manufactures. They do not raise from their own soil, with the exception of hay and potatoes, but a small fraction of what their inhabitants require and consume: they could not from their own fields and granaries feed the population which they had in 1830, much less their present population. The most intense revenue-reformer, the most unenlightened Democrat, will have to confess that New England is indebted in large part for her splendid development to the protective system. Now, have her prosperity and progress been secured at the sacrifice of other interests and other sections? I answer, No; but they have brought, as I believe I shall be able to show, a positive blessing to all of our 60,000,000 of people.

In 1880 the population of these six States was over 4,000,000. The food products required by their people, the very necessities of their daily life in a large measure, came from other States and remote sections of the Union. They raised in 1880 but one-quarter of 1 per cent. of the total wheat production of the United States. They raised in the same year but one-half of 1 per cent. of the total crop of Indian corn, 2½ per cent. of the oats, 12 per cent. of the hay, and 13 per cent. of the potatoes which were produced in the United States. What did they consume? What did they buy of the Western

farmer? Fifty millions of dollars' worth of meat was consumed by their industrial people in a single year. The extent of their needs is strikingly shown by the fact (obtained from the accounts of Commissioner Fink) that during the year 1884 the "trunk lines" brought into New England no less than 470,000 tons of flour and 950,000 tons of grain. At 200 pounds to the barrel of flour, this is an importation of 4,700,000 barrels, or one and one-fifth, nearly, for each inhabitant. During the same year there were exported from Boston and Portland, the only points in New England from which breadstuffs are sent abroad, 2,100,000 barrels of flour, leaving for consumption within these States 2,600,000 barrels. These figures take no account of the large trade by water from New York. I am informed that a large part of the flour consumed in Connecticut, Rhode Island, and Southern Massachusetts is received in this way, but no reliable statistics are available. It is reasonable, however, to suppose, and this comes to me from what I deem good authority, that the amount thus received and consumed offsets a large portion of the foreign exports to which I have referred.

Of the grain received during the same year rather less than 400,000 tons were exported, leaving for New England consumption 550,000 tons, for all of which these States were the customers of the West in addition to the amount grown upon their own soil. In addition to this, New England consumed, in 1886–'87 in her factories, nearly one-fourth of the entire cotton crop of the country. More than this, she used in her woolen mills in 1880 fully one-half of the entire wool clip of the United States, and during the year 1886 she consumed more than one-sixth of the entire anthracite-coal production of the country and 5½ per cent. of the bituminous-coal production, and every pound of both came from the Middle and Southern States.

Is not New England (I appeal to the gentlemen of the other side, I appeal to the farmers of the country) worth preserving? Is not the industrial system which makes such a community of consumers for agricultural products possible worth maintaining? Does not she give you a trade and an exchange of products worth your while to guard with the most considerate care? And does not her condition indicate the wisdom of the policy we advocate? Is not her market better for you than a foreign one? Is not New England a

better customer for you, more reliable, more easily reached, more stable, than Old England? Is not Boston a better consumer for the people of the United States than London, New York than Liverpool, Pittsburgh than Manchester, Cincinnati than Birmingham?

New England buys of you for all her wants; Old England takes not a pound or a bushel from you except what she must have and can not get elsewhere.

Now, let us contrast this home market of New England with the foreign market of Old England. In 1880 New England consumed 540,000,000 pounds of cotton, at 11.61 cents a pound, which in value then amounted to $62,695,000, 29 per cent. greater than the per capita value of all our domestic exports to the United Kingdom, and this was only New England's contribution to the Southern producers of cotton. She sends at least $70,000,000 to the West and Northwest for her food supplies. She sends to the wool-growers of the Middle, Western, and Pacific States $40,000,000 annually for their fleeces. I repeat, is not this market worth preserving, ay, cherishing, and does it not make us long to have New England thrift, New England enterprise, and New England politics more generally distributed throughout all sections of the country?

You can destroy this valuable home market by such legislation as is proposed in this bill; you can diminish this demand for food, for cotton, for wool, for flax, and hemp produced in other sections of the country by following the delusive theories of our friends on the other side of the House; you can diminish the capacity of the operatives to buy of you by diminishing their wages; you can drive them from the cotton and woolen factories to the farms; they will then drift to the West and Northwest, not to engage in manufacture, but in a great measure to become tillers of the soil, and instead of being as they are now, and as they will be under a proper tariff system, your consumers, they become your competitors. They go from the ranks of consumers to the ranks of producers; diminish the consumers and increase the producers. The foreign market for agricultural products is one of the delusions of free trade. If it ever had any real substance as against a good home market that has long since disappeared.

The chairman of the Ways and Means Committee says to the Western farmer, "Let New England go. Pass her by and go to Old

England." Well, that is about as practical as the Democratic party ordinarily is.

Why, it was only a little while ago that I remember to have heard the gentleman from Arkansas (Mr. Dunn), a prominent member of this House and chairman of one of its leading committees, say what I now read from the *Record*:

"The wheat producer of the Northwest is standing face to face with the wheat producer of India. A few years ago India shipped 40,000 bushels of wheat. Last year (1885) she put into the market 40,000,000 bushels. Can you protect the Northwest farmer against that labor? India can put wheat down in the markets of consumption in Europe cheaper than we can transport it from the fields of production to the markets of consumption; that is to say, India can produce and market her wheat in Europe for what it costs the farmer of the Northwest to transport his to the market of consumption, without allowing him for the cost of production. In other words, the transportation of wheat costs the American farmer as much as both transportation and production cost the India farmer."

In the face of a statement like this, from such high Democratic authority, how, I ask, is the wheat of the American farmer to reach the European market with any profit to our producers? And yet it is to this kind of competition the chairman of the Ways and Means Committee invites the American farmer. Do the farmers want such a market with such a competition? What their answer will be no man can doubt. They reject with indignation and scorn the chairman's invitation. The home market is the best, besides being the safest. It has got the most money to spend, and spends the most. It consumes the most; it is therefore the most profitable.

The masses of our people live better than any people in the world. Great Britain only buys our food products when she has not enough of her own and can reach no other supply. This market, therefore, is fitful and fluctuating, and can not be relied upon as we can rely upon our own consumers. The foreign market under a revenue tariff for agricultural products has not been encouraging in our own experience in the past. It promises less under such a system in the future.

### Increased Importations the Purpose of the Bill

The chairman of the committee in opening this debate boldly announced that we must increase foreign importations to secure national prosperity. How much does the gentleman and the party with which he is associated desire to increase importations? Are they not large enough already? Are they not now crowding our producers and diminishing their annual productions? Are they not already making labor restless, filling it with apprehension and uncertainty as to the future? Is this country to be the dumping ground of foreign products? During the last fiscal year over $233,000,000 in value of foreign merchandise was imported into the United States free of duty, and over $450,000,000 additional was imported which paid a duty. Is this not enough? Do the iron and steel workers want further importations in their line, representing cheap labor, to compete with the product of their labor? Over $50,000,000 in value of iron and steel manufactures was imported last year, every dollar of which represented foreign capital and foreign labor, which might well have been produced at home. Every ton could have been made here, and American hands were waiting to make it.

How much labor do you suppose was represented by the $50,000,000 worth of iron and steel that came into this country last year? It would have taken 1,740 puddlers and helpers, working every day for 300 days in the year, to have produced the scrap-iron that came from Europe last year. It would have taken 2,500 men 300 days to have produced the bar and structural iron, and steel billets, and slabs, and ingots which were imported into the United States last year. It would have taken 300 men 300 days, besides those engaged in preparing the raw material, to have produced the plates and sheets, the corrugated iron, and the steel in various forms imported last year. It would have taken 3,700 men 300 days to have made the wire rods and the nails and the screws and wire in various shapes which were imported into the United States last year. It would have taken 800 men 300 days to have made the washers, and the bolts, and the fish-plates, and railway-plates, the steel tire, hinge-iron, and tubes of steel which were imported into this country last year. It would have taken 24,000 men to manufacture the tin-plate imported last year. Summing up these figures, 33,540 men, working for 300

days, would have been required to produce the $50,000,000 worth of iron and steel which we imported last year. Do you want that volume increased? Ten million sixty-two thousand is the aggregate number of days' work that were taken from American workingmen, every day's work of which they could have performed, and were waiting ready to perform. Including all branches of labor required to manufacture the $50,000,000 worth of imported iron and steel and the manufacture thereof, taking into account the labor employed in the mining, transportation, and manipulation of the raw materials, and it would employ nearly, if not quite, one hundred thousand men.

I do not know what you think about it; but I would not permit a single ton of steel to come into the United States if our own labor could make it. Let American labor, as far as practicable, manufacture American products. And if you do not like it, you know what you can do. This Government is made for Americans, native-born and naturalized; and every pound, every bushel, every ton, every yard of foreign product that comes into this country to compete with ours deprives American labor of what justly belongs to it.

Do the farmers want increased importations of agricultural products? Of barley alone there were $6,152,000 of value imported last year, and of vegetables a value of $2,276,000. The total imports of the products of agriculture for the year 1887 free and dutiable were in value $197,308,240. Of this sum $46,678,443 was admitted free of duty and the remainder paid a duty. Do the agriculturists want the duties all removed and their products driven from this market? Seven million three hundred thousand dollars' worth of foreign glass came into this country last year. Do the glass-blowers want this volume increased? Five million five hundred and forty-five thousand dollars' worth of pottery of foreign make entered our market last year. Do the potters want this vast sum augmented? Will the wool-growers who were compelled to compete with $16,000,000 worth of foreign wool last year relish the prospect of having their product further displaced next year; and the labor engaged in woolen manufactories in this country, are they anxious that the $44,000,000 worth of woolen goods imported in 1887 in competition with the products of their labor shall be multiplied in 1889? All these importations will be greatly increased if this bill shall become a law. Every invoice of foreign goods which comes here the like of

which we can make crowds out just so much American labor. Is there to be no limit to this foreign invasion?

I answer, only to the extent that our people shall make importations impossible by reducing the cost of the home product. This will be the only restraint upon foreign merchandise glutting this market to the displacement of our own. If our present labor conditions are maintained—and this bill gets upon our statute-book—there will be no barrier in the way of a perfect inundation of foreign goods in the United States. It should not be forgotten that low duties or no duties substitute foreign imports for homemade and home-grown products, and to the extent of such substitution take work and wages from American labor. The effect of this bill, and there can be no other, is to increase importations, displace our own products by foreign ones, diminish the output of our factories and mills, curtail the demand for labor, and reduce the wages of those who may be able to get work. This result is as clear and manifest to me as the simplest mathematical problem, and we have only to look at the wage scale of competing nations to know what our labor will come to with free trade or its equivalent. We can not compete with foreign nations without the restraint of a tariff unless we have equal conditions and equal labor cost. To do this we must introduce European conditions and European methods in the United States, and that is what this bill and all similar legislation mean.

"The trammels of trade must be removed" is the language employed by the friends of this bill. How and in what way? First, by removing the duty from raw materials used in manufacture, which of necessity will be at the expense and loss of those engaged in preparing them. But to a tariff reformer that is of little account. This trammel must go, to enable the domestic manufacturer to compete with the foreign manufacturer at home and abroad. After this, and next in order, the trammel of high wages must be removed. This is the most important and essential of all. This is the chief obstruction. Free raw material will not equalize the condition of manufacturers at home with those abroad. Cheap labor, underpaid labor, underfed labor will be the next demand of the advocates of this bill. Some of them have been frank enough to avow it already. This is the inexorable logic of the situation. If we are to control the whole of our own market and send our manufactures across the sea,

it can be accomplished in one way only, by reducing the cost of the home product to the same or below the cost of the foreign product. To do this every intelligent man knows involves an enormous reduction of the wages of American workingmen. To this a revenue tariff comes at last and from which there is no escape and against it every true American interest cries out in an emphatic and earnest protest.

I propose a wiser and more patriotic solution of the difficulties of our financial situation. If we will buy more American goods and less foreign, we will reduce the income of the Government and leave and increase the surplus among the people. If we will buy more American merchandise and less of foreign make, manufactures at home will run the year round and labor will be suitably rewarded and steadily employed. If we had some of that lofty patriotism evinced by the fathers, if we were more American in feeling, sentiment, and purpose, there would be fewer advocates of this bill.

### American Wages against European Wages

There has been much effort made in this debate to show that, after all, American workingmen get no better pay than the workingmen of other countries. Let us consider this branch of the discussion for a little while, for if it be true that labor here is no better rewarded than elsewhere, then the strength of protection is much weakened. I beg to cite, against the unsupported statements of the gentlemen who have already spoken upon the other side, the testimony of American workingmen whose opportunity for information from experience in both countries, and otherwise, makes their evidence incontrovertible.

* * * * * * * * * * *

The chief and controlling question is one of labor, and so long as the labor cost here in any department of employment exceeds the labor cost in Europe so long we must have a protective tariff which shall compensate for this difference. And whether the labor is in the rice-fields of Georgia and of the Carolinas, or in the wheat-fields of the Northwest, in the factories of New England, the mines of Maryland and Virginia, or the furnaces of Pennsylvania, Ohio, and New Jersey, it must be protected against the less rewarded labor whose products come in competition with theirs. Either this

tariff must be maintained to maintain the difference of wages or one of two things must inevitably occur: we must abandon production in many of the most valuable fields of industry here or our labor must come down to the standard of the competing labor; and we may discuss our theories until the frosts of December and we can not alter the fact. . . .

The expectation of cheaper clothes is not sufficient to justify the action of the majority. This is too narrow for a national issue. Nobody, so far as I have learned, has expressed dissatisfaction with the present price of clothing. It is a political objection; it is a party slogan. Certainly nobody is unhappy over the cost of clothing except those who are amply able to pay even a higher price than is now exacted. And besides, if this bill should pass, and the effect would be (as it inevitably must be) to destroy our domestic manufactories, the era of low prices would vanish, and the foreign manufacturer would compel the American consumer to pay higher prices than he has been accustomed to pay under "the robber tariff," so called.

* * * * * * * * * * *

We recall, Mr. Chairman, that the chairman of the Committee on Ways and Means talked about the laboring man who worked for ten days at a dollar a day, and then went with his ten dollars wages to buy a suit of clothes. It is the old story. It is found in the works of Adam Smith. I have heard it in this House for ten years past. It has served many a free-trader. It is the old story, I repeat, of the man who gets a dollar a day for his wages, and having worked for the ten days goes to buy his suit of clothes. He believes he can buy it for just $10; but "the robber manufacturers" have been to Congress, and have got 100 per cent. put upon the goods in the shape of a tariff, and the suit of clothes he finds can not be bought for $10, but he is asked $20 for it, and so he has got to go back to ten days more of sweat; ten days more of toil; ten days more of wear and tear of muscle and brain to earn the $10 to purchase the suit of clothes. Then the chairman gravely asks, Is not ten days entirely annihilated?

Now a gentleman who read that speech or heard it was so touched by the pathetic story that he looked into it and sent me a suit of clothes identical with that described by the gentleman from Texas, and he sent me also the bill for it, and here is the entire suit; "robber tariffs and taxes and all" have been added, and the retail

cost is what? Just $10. So the poor fellow does not have to go back to work ten days more to get that suit of clothes. He takes the suit with him and pays for it just $10. . . .

And now, Mr. Chairman, I never knew of a gentleman engaged in this business who sold his clothes without a profit. And there is the same $10 suit described by the gentleman from Texas that can be bought in the city of Boston, can be bought in Philadelphia, in New York, in Chicago, in Pittsburgh, anywhere throughout the country at $10 retail the whole suit, coat, pants, and vest, and 40 per cent. less than it could have been bought in 1860 under your low tariff and low wages of that period. It is a pity to destroy the sad picture of the gentleman from Texas which was to be used in the campaign, but the truth must be told. But do you know that if it were not for protection you would pay a great deal more for these clothes? I do not intend to go into that branch of the question, but I want to give one brief illustration of how the absence of American competition immediately sends up the foreign prices, and it is an illustration that every man will remember. My friend from Missouri (Mr. Clardy), who sits in front of me, will remember it. The Missouri Glass Company was organized several years ago for the manufacture of coarse fluted glass and cathedral glass. Last November the factory was destroyed by fire. Cathedral glass was their specialty. Within ten days from the time that splendid property was reduced to ashes the foreign price of cathedral glass advanced 28 per cent. to the American consumer. Showing that whether you destroy the American production by free trade or by fire it is the same thing; the price goes up to the American consumer, and all you can do is to pay the price the foreigner chooses to ask.

## The Poor Man's Blankets

Now, the gentleman had a lot of blankets here the other day. The very climax of the gentleman's speech was reached when he came to a description of the American blankets, and the enormous burdens that the tariff laid upon the poor man's bed and covering. . . .

Now, Mr. Chairman, what did these same blankets cost in 1860 under a revenue tariff, under the free-trade domination of this country by the Democratic party? What did we pay for the same

blankets that year as contrasted with what we pay now? The blanket that sells to-day for $1.02 sold in 1860 for $2. The blanket that sells now for $1.45 sold in 1860 for $2.25. The blanket that sells now for $1.90 sold in 1860 for $3.50. The blanket that sells now for $2.58 sold for $3.75 in 1860. The blanket that sells now for $4.35 sold for $7.50 in 1860. The blanket that sells for $5.85 now sold for $10.00 in 1860. The blanket that sells now for $6.80 sold for $14 in 1860. . . .

The weekly earnings of the spinner in 1860 could buy three pairs of cheap blankets for one week's work. The spinner under American protection in 1888, for the price of one week's work can buy fifteen pairs of blankets. Talk about productive capacity! Think about buying capacity! The spinner buys his blankets for one half what they cost him in 1860; and he gets two and a half times as much for his labor in 1888 as he got in 1860. Do you wonder these men do not like your bill? Do you wonder these men condemn the action of the committee for not listening to their protests? Why, you are preparing here to-day—and that is the purpose and effect of this bill—you are preparing here to reduce the scale of American wages. . . .

## The United States Buying Foreign Blankets

On the 25th of March, 1887, the United States Government advertised for bids for the purchase of blankets for the use of the medical department of the Army. This was in 1887, under the present Administration. There were foreign bids and there were American bids.. Now, if the President is right in saying that the duty is added to the cost, then the foreign cost, duty added, ought to be just equal to the American price. Now, what are the facts of this transaction? As I have said, there was a foreign bid, and there was an American bid. The foreign bid was for a four-pound blanket for medical purposes, to be furnished for $2.25$\frac{2}{10}$. For the same four-pound blanket for the same purposes, the American bid was $2.56, there being a difference of 30$\frac{8}{10}$ [sic] cents. Who do you suppose got the contract? There was a foreign bid, and an American bid, and the difference between the bids was 30 cents on each blanket. Now tell me which manufacturer, the American or English,

got the contract? Is there anybody here who would not have given it to the American, there being a difference of only 30 cents between the bids?

Is there any gentleman on this floor who would send abroad to get a pair of blankets merely to save 30 cents on them, thus taking away from the American manufacturer and the American farmer and the American laborer that much business? However that may be, that contract did go abroad. English labor, with foreign wool, made those 2,000 blankets for the use of our army. American labor was boycotted and they came in without paying any duty. The Government took advantage of a law that stands on the statute-book and admitted them free of duty. There being so little revenue in the Treasury, it was necessary, of course, to save every penny, so they took advantage of that law which permits the United States to bring in goods free of duty.

* * * * * * * * * * *

Mr. Chairman, I wish that this Government of ours, which is supported by its own people, and not by foreigners, would patronize its own people. I think that is an example of patriotism which should be set by those charged with public administration. I wish the men who pay the taxes to support this Government, to pay the President's salary and other expenses of the Government, would be patronized when the Government has anything to buy, don't you? And are you not a little ashamed of this transaction, all of you? I do not know whether the like was ever done under any former administration or not; but it never ought to be done, except in time of war or great public necessity, by any future administration of any party.

## XXIV

## REED: SPEECH ON THE MILLS BILL[1]

THE system we believe in is called protection, and is founded upon the doctrine that a great nation like ours, having all varieties of climate and soil, will be richer, more independent, and more thrifty, and that its people will be better fitted to enjoy the comforts and luxuries of peace, and better situated to endure the calamities of war, if its own people supply its own wants.

I do not purpose to defend protection. Its vast growth within the last quarter of a century defends it better even than eloquent orations. It was born with the Republic. It is the faith and practice of every civilized nation under the sun save one. It has survived the assaults of all the professors of the "dismal science" called political economy. It has stood up against all the half knowledge of learned men who never had sense enough to transmute their learning into wisdom.

On the face of the earth to-day there are but two sets of people who believe in free trade, whether pure and simple or disguised as revenue reform, and those two are the masked majority of the Committee on Ways and Means and their followers, and the United Kingdom of Great Britain and Ireland, with Ireland suppressed.

Russia, the granary of Europe, has abandoned free trade, with the striking result that whereas, in 1876, before the duties were raised, she bought eight million hundred-weight of British metals and paid therefor thirty million of dollars (eight for thirty), she got the same quantity in 1884 and paid only seventeen million for it (eight for seventeen). Three dollars and seventy-five cents per hundred-weight before tariff, and $2.12½ after. Austria, Germany, Italy, Mexico, and the Dominion of Canada, that child of Britain herself,

[1] Thomas B. Reed (1839–1902), Speech on the Mills Bill, in the House of Representatives, May 19, 1888.

have all joined the army of protection. It is the instinct of humanity against the assumptions of the book men. It is the wisdom of the race against the wisdom of the few.

Perhaps the best argument I can make for protection is to state what it is and the principles on which it is founded.

Man derives his greatest power from his association with other men, his union with his fellows. Whoever considers the human being as a creature alone, by himself, isolated and separated, and tries to comprehend mankind by mathematically adding these atoms together, has utterly failed to comprehend the human race and its tremendous mission.

Sixty millions even of such creatures without association are only so many beasts that perish. But sixty millions of men welded together by national brotherhood, each supporting, sustaining, and buttressing the other, are the sure conquerors of all those mighty powers of nature which alone constitute the wealth of this world. The great blunder of the Herr Professor of political economy is that he treats human beings as if every man were so many foot-pounds, such and such a fraction of a horse-power. All the soul of man he leaves out.

Think for a moment of the foundation principles involved in this question, which I now ask, Where does wealth come from? It comes from the power of man to let loose and yet guide those elemental forces the energy of which is infinite. It comes from the power of man to force the earth to give her increase, to hold in the bellying sail the passing breeze, to harness the tumbling waterfall, to dam up the great rivers, to put bits in the teeth of the lightning. Foot-pounds and fractions of a horse-power will never do this. It takes brains and the union of foot-pounds and fractions of a horse-power working harmoniously together.

To grasp the full powers of nature, to reap the richest wealth of the world, we must utilize the full power of man, not merely muscles and brains, but those intangible qualities which we call energy, vigor, ambition, confidence, and courage. Have you never remarked the wonderful difference between a sleepy country village, lying lazily alongside an unused waterfall, where more than half the energy of the people was lost for lack of the kind of work they wanted to do; where, whenever three men met together in the road, the rest looked

out of the windows, idly wondering what the riot was about, and that same village after the banks were lined with workshops and the air was noisy with the whirr of the spindles, and every man was so eager to work that there never seemed hours enough in the day to tear from the powers of nature their imprisoned richness?

If you have, you have also seen the contrast between men left to themselves, so many foot-pounds and fractions of a horse-power, and men incited by hope, spurred on by ambition, and lighted on their way by the confidence of success.

For a nation to get out of itself or out of the earth all the wealth there is in both, it is not necessary for the nation to buy cheap or sell dear. That concerns individuals alone. What concerns the nation is how to utilize all the work there is in men, both of muscle and brain, of body and of soul, in the great enterprise of setting in motion the ever-gratuitous forces of nature.

How shall you get out of the people of a nation their full powers. Right here is precisely the dividing line. The let-alone school say leave individual man to his own devices. The protectionist school say let us stimulate combined and aggregated man to united endeavor. What made men work before governments? Was it an intellectual belief that work was good for the muscles? Not the least in the world. It was hunger and desire. Hunger has ceased to play the greater part, but desire will never pass away.

In the ever-growing desire of mankind for new worlds of comfort and luxury to conquer is the blazing promise of the unhasting, unresting march of civilization. In that column of march the whole nation must be ranged. Association is the instinct of humanity which grows with its growth. First the family, then the tribe, and then the nation. The race will come by and by. Faithfulness to each in their order is the true route to the next.

Here in the United States are 60,000,000 people with all the varied characters their numbers indicate. Some have faculties fit for farming, some for the management of machinery, some for invention. The problem before you is what system will get from all these creatures, so different from each other, the maximum of work and wealth and wisdom.

I have already said that the great incentive, the motive power of man, is desire. That is the magnet which draws him, but, like all

other magnets, it must be put near the armature. The quenching of desire must not cost too much. The pathway to its accomplishment must not be too rugged. If you say to him who loves invention and hates farming, your path and your desire lies through the cultivation of the fields, he will say this thing costs too much. If you say to the man who loves the fields, your way must be through the workshop, you bar his progress.

There is only one way to get the best work out of men, and that is to give each the work he can do best. You can only accomplish this by diversifying industry. To diversify industry completely in a country such as ours, there is but one way given under Heaven among men. To enable the American people themselves to supply all their wants, you must give and assure to the American people the American markets. What does this phrase mean in practical life? It means that we, the nation, say to capital, "Embark yourself in the manufacture of such and such articles, and you shall have a market to the extent of the wants of the American people."

Capital then says to labor, "Go with me into this new field, all of you who like this work best, and we will share the results." Then begins a new industry. Multiply this by hundreds and you have a community where every man honestly minded will get what on the whole suits him best, and the nation will get the greatest amount of work from the greatest number.

To this system, so far sketched, no human being can find reasonable objections. But it is averred that there are some drawbacks. It is alleged that the people who are in the older industries—those which establish themselves without law—have to pay higher prices for the articles so manufactured, and that the employment in new industries is all at their expense. This does not in the least touch upon the utilization of human energy and natural energy which would otherwise run to waste. It does not touch upon the question of the divine right of those who are adapted to the older industries to reap alone the riches of the earth.

So seemingly unjust has this last appeared in one instance, that of the land-owner, that a prominent free-trader, Mr. Henry George, who will vote next election for revenue reform, has proposed to take away from land more or less of its value to the owner. That I do not agree to. I make no reclamations on that account.

I meet the question squarely and asseverate that protection does not raise prices. The opposite statement and the argument which backs it up, I purpose to state fairly, for we now come to the famous revenue-reform dilemma. You tell us, they say, that protection is for the purpose of enhancing prices to enable high wages to be paid, and yet you say that protection lowers prices. This is flat contradiction. So it is as you state it. But your statement, like all revenue-reform statements, flourishes only by assumption.

In order to make yourself clear, you have utterly omitted the element of time. You assume that we say that both our statements of higher prices for higher wages and lower prices for consumers are for the same instant of time. Not so. When you begin there are higher prices for higher wages, but when you establish your manufactories, at once the universal law of competition begins to work. The manufactories abroad, urged upon by the lower prices which the tariff forces them to offer in order to compete with us, cause every element of economy in manufacture to be set in motion. Every intellect is put to work to devise new machinery which will produce at lower cost, to seek out new methods of utilizing waste, to consolidation of effort to lessen general expenses, and the thousand and one devices every year invented to get more work out of the powers of nature.

At home the same causes are at work, and with redoubled energy, because on account of higher wages there are greater inducements to substitute labor-saving devices for costly labor. And this colossal struggle between two great empires of industry, the foreign and the domestic, results everywhere in the cheapness of commodities, in which progress of cheapness the world has marched on in one unbroken undeviating line, until to-day the citizens of the United States, the sovereigns of to-day, as we call them in moments of patriotic exaltation, the poorest citizens have for the commonest necessities of life the luxuries of the sovereigns of old days.

That lower prices will come at once, we have never said. That they will come and grow lower and lower so that in the series of years which make up a man's life all he needs will cost him less than under revenue reform we asseverate and maintain, and all history is behind our asseverations.

But would not all this take place under free trade; would not English manufactures, supplying all the world, have grown thus cheaper by themselves? Let me answer this question by two others. Do you believe in the lowering of prices by competition? Of course you do. Do you believe that the great production of $7,000,000,000 of manufactures have not entered into competition with those of England? You know that they have been the great power which has forced English prices down.

Do you want an example of to-day? In 1883 the importers were eager to prevent the increase of the tariff on pottery. I know it, because a gentleman was here earnestly urging me not to consent to the increase. Only three years afterwards he acknowledged to me that the foreign manufacturers were obliged, in the face of the great increase of product, both in quantity and quality, to cut their prices so as to pay even more than the tariff tax. Perhaps some revenue reformer may ask me, on the strength of this example, how our raising tariff helped manufacturers here if the foreign manufacturer lowered his prices.

I am glad to answer that question, for it answers many others. Before the raise, we were on pottery fighting foreigners gorged with profits and flushed with the spoils of our markets. To-day we are fighting them on even terms, or would have been, but for the package clause. Their profits would be going into our treasury, not into their pockets, and between them and us would still be going on that equal contest for cheaper and cheaper manufactures which, without lowering wages, is giving us every day lower prices and an ever-widening manufacture.

Perhaps some gentleman will say to me that this is all a dream; that the very fact of a barrier raised by our tariff prevents competition. Every manufacturer knows better. England must work or starve. She has piled up her capital, and if she can not get large profits she will take small. Let me not confine myself to theory. Let me once more recall that tremendous fact about Russia. In 1876, three years before her tariff, she bought 8,000,000 hundred-weights of British metals at $30,000,000, 8 for 30. In 1883, four years after the tariff, she bought the same amount, 8,000,000 hundred-weights for $17,000,000, 8 for 17, $3.75 per hundred-weight before,

\$2.12½ after. Was that the effect of the Russian tariff alone? Not so. It was the effect of tariffs the world over.

Let me show the same fundamental fact on a larger scale. I have here the report of the Royal Commission to inquire into the causes of the depression of British trade. There is much matter of excellent admission throughout that work, but one paragraph will serve my present purpose. It is on the page numbered xii, where you will find that the exports in 1883 were £240,000,000, but that the value of those same exports at the prices of ten years before were £349,000,000.

The difference is £109,000,000—\$545,000,000. If you want it in percentage, you will find that you must add more than 45 per cent. to the price of 1883 to get the richly profitable prices of 1873. To what does the world owe this gain of \$545,000,000 in a single year? Who was the fruitful mother of all this gain?

She whom in your short-sighted wisdom you have always called barren, tariff taxes; and facing your most opprobrious phrase, the one you roll most lovingly under your tongue, I dare to asseverate that if the whole world will repeal its tariff taxes, England will reap in the next ten years not only ten times these five hundred and forty-five millions, but a thousand millions more every year. Tariff taxes! How men like to fool themselves with phrases! Because the taxing power is used not only for revenue but as the barrier, and taxes are odious, therefore the barrier must be odious also. How can taxes produce? This is only mere word-trifling. Can you keep cattle out of the cornfield by sticking wood into the ground? Yes, if you make a fence.

Do you mean to tell me, said the wise bumpkin to the engineer on the banks of the Merrimac—do you mean to tell me that you can make that stream useful by putting rocks into it? Yes, said the engineer, as he proceeded to build his dam and set in motion the water-wheels of mighty Lowell.

I have said that the professor of political economy treats man as a soulless aggregation of foot-pounds. Let me give you a striking example of this humanizing science.

Speaking of shorter hours of labor the British Commission report, from which I have quoted, says, page xxi, paragraph 82, speaking of shorter hours of labor:

"It must be for the country and the workman himself to decide whether the advantages of shorter hours compensate for the increased cost of production or diminished output. We believe that they do, and on social as well as on commercial grounds we should regret to see any curtailment of the leisure and freedom which the workman now enjoys. No advantage which could be expected to accrue to the commerce of the country would, in our opinion, compensate for such a change."

On the commission was Bonamy Price, the only recognized professor on it, and here is his sole contribution to this volume:

"I beg to express my dissent from paragraph 82. It contains a specified repudiation of the great doctrine of free trade. [Great is Diana of the Ephesians.] Shorter hours of labor do not and can not compensate to a nation for increased cost of production or diminished output. They tax the community with dearer goods in order to confer special advantages on the working man. They protect him, and that is a direct repudiation of free trade. The country is sentenced to dearer and fewer goods."

He is right, the dear professor, though rather crisp and brutal. Shorter hours and higher wages are "direct repudiations of free trade."

Let me now treat you to an argument for protection in America out of Bastiat. Frederick Bastiat, of France, was the brightest free-trader that ever charged down the lines. No man can refuse the tribute of admiration to the wonderful play of that subtle intellect. He has furnished the other side most of its brains and all its dialectics.

Yet while he is arguing free trade for France, I think he has proved protection for America. Talking to Frenchmen, he says: "I say, and I think so very sincerely, that if two countries find themselves placed in unequal conditions of production, *it is that one which is the least favored of nature which has the most to gain by liberty of exchanges.*"

He proves his case this way. Labor is the sole cost. All the rest is the gratuity of nature. Whatever labor produces in one land more than the same labor in another land is difference of gratuity only. It is the measure of relative richness of the two countries. If one man should discover rich soil he would alone reap the gratuity. If ten thousand men discover it the principle of competition comes in and the gratuity goes to consumers. If one farm could double its

fertility, the owner would be richer. If all the farms doubled their fertility, the whole gratuity would go over to the consumers. Let me illustrate that by something which Bastiat never knew, for he died forty years ago.

If one railroad alone in this country had had steel rails, all the benefit of that would have gone to the company. But when all the companies had them, and thereby could do their work cheaper and so save vast amounts of money, some railroad presidents looked for big dividends. What happened? Why each one said I can get a little more business if I do it cheaper, and get the same results. Then they began to compete, and the final result now is that that magnificent gift of nature, through Sir Henry Bessemer, the difference between the strong, long-lived steel rail, and the weak, short-lived iron rail, has, every dollar of it, gone to the people, making cheap transportation instead of big dividends.

Let my poor scared friend who covers his head with the bedclothes at night lest he should be devoured by monopolies take courage. The Great Maker of this universe knows how to get His gifts distributed to His children. Since, then, the gratuitous part must be distributed, it follows, as Bastiat claims, that exchange is the barter of values, and value being reduced by competition to represent work, exchange is the barter of equal works, and, therefore, in free trade the richest country gives the most; in fact, it levels itself down and levels the other countries up.

Now, which is the richest, Europe or America? We are all agreed on that. We say America because our eyes behold it. You say so because your eyes behold it, and you see one thousand millions wasted besides. What do you mean to do? I will tell you what we mean to do. We mean to keep this wealth here. We mean to do it even if we build a "Chinese" wall of tariff taxes around this country.

Let me give this great truth of Bastiat's another application. Nature produces all. That is the origin of the much-abused phrase, "The farmer pays all." Whenever the farmer goes beyond his farm for the gratification of his desires, Bastiat, the free-trader, shows that he must then share his riches. Now whom shall he share it with, the mechanic at home or the mechanic abroad, his fellow-citizen or an alien? Which is for his interest?

Let me put it in other phrase. Which is it better for a farmer to do, send his surplus wheat a thousand miles to the sea-coast, three thousand miles across the water, pay the freight, sell it to the mechanic who gets less wages, or sell it right here at home to the mechanic who gets more wages? The answer seems obvious.

The minor arguments for free trade are exceedingly simple. Reasoning in a circle always is. There is nothing so compact as begging the question. Truth is difficult. "Easy as lying," is a proverb. Says a learned professor, "If under your tariff I can buy for a bushel of wheat in Liverpool the same articles for which I pay in New York a bushel and a peck, will anybody tell me I don't lose a peck of wheat, and lose it by your tariff?" Looks so, doesn't it?

But there are two assumptions you perceive on examination; first, that under free trade American wheat will be as high at Liverpool and British wares as low. In other words the learned professor assumes that two bushels of wheat bidding for one set of wares will get them at the same price as when two sets of wares are bidding for one bushel of wheat. Verily this seemeth to be the very thing we are discussing. This was the very point the learned professor started out to prove.

Mr. Frank Hurd, the melodious child of free trade, is now traversing this country founding a great oration on the same convincing argument. If a laborer with two dollars in his pocket won in a day in protectionist America can buy in Liverpool for one dollar what he wants, and you make him pay two dollars to the Rhode Island manufacturers don't you cheat him every day out of half his day? Dear, departed friend, first great martyr in this great cause, why not put it the other way? If a poor laboring man in free trade America without a cent in his pocket, and perhaps no pocket in his trousers, should find out that things cost the same in Rhode Island and Liverpool, would the happiness he would undoubtedly feel be anything more than an intellectual delight?

There are only two fallacies in this foundation stone of the new Jerusalem. The little one is that what costs one dollar in Liverpool will cost two in Rhode Island. This is rhetoric. Let us pass the rhetoric. The big one is that the laborer will get his two dollars under free trade, and goods at Liverpool will be cheap. This is

assumption. I not only point out that all this is assertion and not proof, but I think I can prove the contrary.

You asseverate that if part of the people now there left manufactures and went on the land and produced more wheat we could supply ourselves thereby with the manufactures we failed to make and have a profit, because on our fertile lands we can make wheat cheaper than hardware. Perfectly true, if prices would obligingly keep the same.

What makes wheat so cheap to-day? So many unexpected thousand bushels from India. Would not the same number of extra bushels in America have done the same? Would not so many extra bushels from America added to so many extra bushels from India drive it down at more than double the per cent.? British prices are low because the outside world manufacturing for itself won't buy, and these prices have been forced down, say the board to investigate, etc., 57 per cent. from 1873 to 1885. More wheat from America would lower prices of wheat just as more manufactures under tariff have lowered prices of goods. What a jolly rise those same prices would have if we supplied our lost manufactures by import.

The great folly of this most taking free-trade argument is the reasoning from the individual to the nation. If you should suspend the tariff laws for a single man he could, beyond a doubt, buy in Liverpool for a bushel of wheat what in New York costs a bushel and a peck. But would it not be the same if the laws were suspended as to all? By no manner of means. "Why not," says the free-trader; "is not the nation made up of individuals?" Certainly; but compared with one individual the universe is practically unlimited. He can move round and disturb nothing. Sixty millions of him make a big disturbance when they move.

Let me give you an illustration from Wall street. I suppose that when a distinguished man, an ex-minister to England, which is the least of his distinctions, a man whose perceptions are of such delicacy that the present President reminds him of Abraham Lincoln, of blessed memory, has without reproach compared protection to three-card monte, I may refer to Wall street without censure.

The gentleman from Pennsylvania who, by the wisdom of the Speaker, so well represents the wishes of his State on the Committee on Ways and Means was once an honored director in the Lake

Shore and is now an honored director in the Canadian Pacific. Suppose he were to say to one of his friends—to me, for instance, for I like to dream of such a good thing—you have a hundred shares of Lake Shore. They pay 4 per cent. and sell at 92. Canadian Pacific's sell at 59 and pay 3 per cent. Canadian Pacific is a better road. Interstate-commerce bill favors it and the President is friendly.

Sell your 100 Lake Shore and buy 156 Canadian. You will get $468 instead of $400 for income and lots of nice chances. I could do that as per programme. My sale of 100 Lake Shore would not depress that stock. My purchase would not raise the Pacific. But suppose 5,000 men tried the same transfer—nay, 500—what would be the result? Canadian Pacific would go up like a rocket and Lake Shore down like a stick, and there would be 500 badly disappointed men, and the more of them there were the more disappointed they would be. If ever the Democratic party, under the lead of the learned professor, on the ground that one man can save a peck of wheat by trading with Liverpool instead of New York, puts this whole nation at the mercy of Liverpool, we shall be a lucky people if we get back the basket.

People say that these tariff discussions are dull and tiresome, but there are always delightful things in them. I don't know when I have bathed my weary soul in such a reverie of bliss as I did while the chairman, by the aid of Edward Atkinson, and the great doctrine of labor-cost, was explaining that the high wages of our work people were not an obstacle, but the very reason itself why the whole circumambient atmosphere should be flooded with the pauper sunshine of Europe.

The more you pay the workman the less the "labor-cost." The more you give your shoemaker the less the shoes cost. The former, he explained, is the cause of the latter. Less "labor-cost" is produced by higher wages. The higher the wages the lower the labor-cost. No limitation, of course, was set to so divine a principle. The only limit to lowness of "labor-cost" is our generosity to the laboring man. Give infinite dollars to the laboring man and things will cost nothing. Surely no frantic orator on labor day, the session before election, ever offered to the horny-handed sons of toil such a sweet boon as the great doctrine of "labor-cost."

But softly, my friends. This is not the millennium. It is not the Heavenly Jerusalem newly descended. It is only the old Jerusalem of the Jews, sacred but ancient. It is the old, old fact that the smarter the workman the better the pay, and the manufacturer makes more out of him besides. It is not an absolute fact. It is a relative one. It only means that a better workman in the same country can get better pay than a poor one, and is worth it and a percentage over. It is a valuable fact, but it is an old one, and if Mr. Atkinson, reputed an able man, ever gave such an extension to that idea as his pupil has he must be one of those men who discover a full-fledged planet with moons whenever an asteroid comes within his field of vision.

But the pleasure given by the great doctrine of "labor-cost" is soon lost in the admiration of the cool courage of what follows. Stimulated by the theory of "labor-cost," the chairman ordered an investigation into the oldest manufactories in New England. What was the result? Why, constantly increasing wages and constantly decreasing cost; the two very things his side has sneered at since tariff debates were invented, higher wages for the worker and lower prices for the consumer.

What industries did he select? Cotton sheetings and cotton prints; cotton goods, the very articles, and perhaps the only articles which have had continuous, unbroken, effective protection since 1824. He selects industries which, under all tariffs, have had sixty-four years of solid protection, shows by them higher wages for labor and lower prices for consumers, then boldly wraps the flag of labor-cost about him and proclaims to a wondering world that tariff has nothing to do with wages. I wonder what Edward Atkinson thought of his new disciple at that moment.

Oh, no; tariffs have nothing to do with wages. It is coal and steam and machinery. But what set up the machinery? What caused the cotton factory to be built? Why, the tariff. So, then, the tariff built the mill, set up the machinery, the machinery increased the wages, but the tariff did not. Is not that very much like saying your father was your progenitor, but your grandfather wasn't. How could you improve machinery you didn't have? How could you increase the efficiency of machinery that didn't exist?